See a Social Security Number? Say Something!
Report Privacy Problems to https://public.resource.org/privacy
Or call the IRS Identity Theft Hotline at 1-800-908-4490

Form **990**

Department of the Treasury
Internal Revenue Service

Return of Organization Exempt From Income Tax

Under section 501(c), 527, or 4947(a)(1) of the Internal Revenue Code (except black lung benefit trust or private foundation)

► The organization may have to use a copy of this return to satisfy state reporting requirements.

OMB No 1545-0047

2011

Open to Public Inspection

A For the 2011 calendar year, or tax year beginning , 2011, and ending ,

B Check if applicable
- ☐ Address change
- ☐ Name change
- ☐ Initial return
- ☐ Terminated
- ☐ Amended return
- ☐ Application pending

C
VALLEY HEALTH SYSTEM
220 CAMPUS BLVD, SUITE 310
WINCHESTER, VA 22601

D Employer Identification Number
52-1357729

E Telephone number
540-536-4302

G Gross receipts $ 76,975,352.

F Name and address of principal officer MARK H. MERRILL
Same As C Above

H(a) Is this a group return for affiliates? ☐ Yes ☒ No
H(b) Are all affiliates included? ☐ Yes ☐ No
If 'No,' attach a list (see instructions)

I Tax-exempt status ☒ 501(c)(3) ☐ 501(c) ( )◄ (insert no.) ☐ 4947(a)(1) or ☐ 527

J Website: ► WWW.VALLEYHEALTHLINK.COM

H(c) Group exemption number ►

K Form of organization ☒ Corporation ☐ Trust ☐ Association ☐ Other ► **L** Year of Formation 1983 **M** State of legal domicile VA

Part I Summary

Activities & Governance

1 Briefly describe the organization's mission or most significant activities SERVING OUR REGIONAL COMMUNITY BY IMPROVING HEALTH. PROVISION OF HEALTHCARE AND MEDICAL SERVICES.

2 Check this box ► ☐ if the organization discontinued its operations or disposed of more than 25% of its net assets

3	Number of voting members of the governing body (Part VI, line 1a)	3	15
4	Number of independent voting members of the governing body (Part VI, line 1b)	4	13
5	Total number of individuals employed in calendar year 2011 (Part V, line 2a)	5	6,137
6	Total number of volunteers (estimate if necessary)	6	0
7a	Total unrelated business revenue from Part VIII, column (C), line 12	7a	62,021.
b	Net unrelated business taxable income from Form 990-T, line 34	7b	0.

Revenue

		Prior Year	Current Year
8	Contributions and grants (Part VIII, line 1h)	626,400.	594,061.
9	Program service revenue (Part VIII, line 2g)	68,440,566.	71,574,260.
10	Investment income (Part VIII, column (A), lines 3, 4, and 7d)	2,972,017.	4,317,120.
11	Other revenue (Part VIII, column (A), lines 5, 6d, 8c, 9c, 10c, and 11e)	-26,014.	-65,579.
12	Total revenue – add lines 8 through 11 (must equal Part VIII, column (A), line 12)	72,012,969.	76,419,862.

Expenses

13	Grants and similar amounts paid (Part IX, column (A), lines 1-3)	356,275.	299,022.
14	Benefits paid to or for members (Part IX, column (A), line 4)		
15	Salaries, other compensation, employee benefits (Part IX, column (A), lines 5-10)	47,810,492.	50,408,200.
16a	Professional fundraising fees (Part IX, column (A), line 11e)		
b	Total fundraising expenses (Part IX, column (D), line 25) ► 879,817.		
17	Other expenses (Part IX, column (A), lines 11a-11d, 11f-24e)	24,735,715.	27,063,487.
18	Total expenses. Add lines 13-17 (must equal Part IX, column (A), line 25)	72,902,482.	77,770,709.
19	Revenue less expenses. Subtract line 18 from line 12	-889,513.	-1,350,847.

Net Assets or Fund Balances

		Beginning of Current Year	End of Year
20	Total assets (Part X, line 16)	41,218,759.	46,999,441.
21	Total liabilities (Part X, line 26)	48,165,810.	51,222,170.
22	Net assets or fund balances. Subtract line 21 from line 20	-6,947,051.	-4,222,729.

RECEIVED
NOV 13 2012
OGDEN, UT
IRS-OSC
1100

SCANNED JAN 08 2013

Part II Signature Block

Under penalties of perjury, I declare that I have examined this return, including accompanying schedules and statements, and to the best of my knowledge and belief, it is true, correct, and complete. Declaration of preparer (other than officer) is based on all information of which preparer has any knowledge

Sign Here

► Signature of officer Date

► J. CRAIG LEWIS CFO
Type or print name and title

Paid Preparer Use Only

Print/Type preparer's name	Preparer's signature	Date	Check ☐ if self-employed	PTIN

Firm's name ► VALLEY HEALTH SYSTEMS
Firm's address ► 220 CAMPUS BLVD STE 310
WINCHESTER, VA 22601-2889
Firm's EIN ►
Phone no (540) 536-4300

May the IRS discuss this return with the preparer shown above? (see instructions) ☐ Yes ☒ No

9-18 NE

Part III Statement of Program Service Accomplishments

Check if Schedule O contains a response to any question in this Part III ☐

1 Briefly describe the organization's mission

SERVING OUR REGIONAL COMMUNITY BY IMPROVING HEALTH. PROVISION OF HEALTHCARE AND MEDICAL SERVICES.

2 Did the organization undertake any significant program services during the year which were not listed on the prior Form 990 or 990-EZ? ☐ Yes ☒ No

If 'Yes,' describe these new services on Schedule O.

3 Did the organization cease conducting, or make significant changes in how it conducts, any program services? ☐ Yes ☒ No

If 'Yes,' describe these changes on Schedule O

4 Describe the organization's program service accomplishments for each of its three largest program services, as measured by expenses. Section 501(c)(3) and 501(c)(4) organizations and section 4947(a)(1) trusts are required to report the amount of grants and allocations to others, the total expenses, and revenue, if any, for each program service reported.

4a (Code) (Expenses $ 76,890,892. including grants of $ 299,022.) (Revenue $)

ORGANIZATION PROVIDED MANAGEMENT AND/OR SUPPORT SERVICES TO 9 SUBSIDIARIES AND 6 OUTSIDE HEALTHCARE ORGANIZATIONS DURING 2011.

4b (Code:) (Expenses $ including grants of $) (Revenue $)

4c (Code:) (Expenses $ including grants of $) (Revenue $)

4d Other program services. (Describe in Schedule O)

(Expenses $ including grants of $) (Revenue $)

4e Total program service expenses ► 76,890,892.

Part IV Checklist of Required Schedules

			Yes	No
1	Is the organization described in section 501(c)(3) or 4947(a)(1) (other than a private foundation)? *If 'Yes,' complete Schedule A*	1	X	
2	Is the organization required to complete *Schedule B, Schedule of Contributors* (see instructions)?	2	X	
3	Did the organization engage in direct or indirect political campaign activities on behalf of or in opposition to candidates for public office? *If 'Yes,' complete Schedule C, Part I*	3		X
4	**Section 501(c)(3) organizations** Did the organization engage in lobbying activities, or have a section 501(h) election in effect during the tax year? *If 'Yes,' complete Schedule C, Part II*	4		X
5	Is the organization a section 501(c)(4), 501(c)(5), or 501(c)(6) organization that receives membership dues, assessments, or similar amounts as defined in Revenue Procedure 98-19? *If 'Yes,' complete Schedule C, Part III*	5		X
6	Did the organization maintain any donor advised funds or any similar funds or accounts for which donors have the right to provide advice on the distribution or investment of amounts in such funds or accounts? *If 'Yes,' complete Schedule D, Part I*	6		X
7	Did the organization receive or hold a conservation easement, including easements to preserve open space, the environment, historic land areas or historic structures? *If 'Yes,' complete Schedule D, Part II*	7		X
8	Did the organization maintain collections of works of art, historical treasures, or other similar assets? *If 'Yes,' complete Schedule D, Part III*	8		X
9	Did the organization report an amount in Part X, line 21, serve as a custodian for amounts not listed in Part X, or provide credit counseling, debt management, credit repair, or debt negotiation services? *If 'Yes,' complete Schedule D, Part IV*	9		X
10	Did the organization, directly or through a related organization, hold assets in temporarily restricted endowments, permanent endowments, or quasi-endowments? *If 'Yes,' complete Schedule D, Part V*	10		X
11	If the organization's answer to any of the following questions is 'Yes', then complete Schedule D, Parts VI, VII, VIII, IX, or X as applicable.			
a	Did the organization report an amount for land, buildings and equipment in Part X, line 10? *If 'Yes,' complete Schedule D, Part VI*	11a	X	
b	Did the organization report an amount for investments– other securities in Part X, line 12 that is 5% or more of its total assets reported in Part X, line 16? *If 'Yes,' complete Schedule D, Part VII*	11b		X
c	Did the organization report an amount for investments– program related in Part X, line 13 that is 5% or more of its total assets reported in Part X, line 16? *If 'Yes,' complete Schedule D, Part VIII*	11c		X
d	Did the organization report an amount for other assets in Part X, line 15 that is 5% or more of its total assets reported in Part X, line 16? *If 'Yes,' complete Schedule D, Part IX*	11d	X	
e	Did the organization report an amount for other liabilities in Part X, line 25? *If 'Yes,' complete Schedule D, Part X*	11e	X	
f	Did the organization's separate or consolidated financial statements for the tax year include a footnote that addresses the organization's liability for uncertain tax positions under FIN 48 (ASC 740)? *If 'Yes,' complete Schedule D, Part X*	11f		X
12a	Did the organization obtain separate, independent audited financial statements for the tax year? *If 'Yes,' complete Schedule D, Parts XI, XII, and XIII*	12a		X
b	Was the organization included in consolidated, independent audited financial statements for the tax year? *If 'Yes,' and if the organization answered 'No' to line 12a, then completing Schedule D, Parts XI, XII, and XIII is optional*	12b	X	
13	Is the organization a school described in section 170(b)(1)(A)(ii)? *If 'Yes,' complete Schedule E*	13		X
14a	Did the organization maintain an office, employees, or agents outside of the United States?	14a		X
b	Did the organization have aggregate revenues or expenses of more than $10,000 from grantmaking, fundraising, business, investment, and program service activities outside the United States, or aggregate foreign investments valued at $100,000 or more? *If 'Yes,' complete Schedule F, Parts I and IV*	14b		X
15	Did the organization report on Part IX, column (A), line 3, more than $5,000 of grants or assistance to any organization or entity located outside the United States? *If 'Yes,' complete Schedule F, Parts II and IV*	15		X
16	Did the organization report on Part IX, column (A), line 3, more than $5,000 of aggregate grants or assistance to individuals located outside the United States? *If 'Yes,' complete Schedule F, Parts III and IV*	16		X
17	Did the organization report a total of more than $15,000 of expenses for professional fundraising services on Part IX, column (A), lines 6 and 11e? *If 'Yes,' complete Schedule G, Part I (see instructions)*	17		X
18	Did the organization report more than $15,000 total of fundraising event gross income and contributions on Part VIII, lines 1c and 8a? *If 'Yes,' complete Schedule G, Part II*	18		X
19	Did the organization report more than $15,000 of gross income from gaming activities on Part VIII, line 9a? *If 'Yes,' complete Schedule G, Part III*	19		X
20 a	Did the organization operate one or more hospital facilities? *If 'Yes,' complete Schedule H*	20		X
b	If 'Yes' to line 20a, did the organization attach a copy of its audited financial statements to this return?	20b		

Part IV Checklist of Required Schedules *(continued)*

			Yes	No
21	Did the organization report more than $5,000 of grants and other assistance to governments and organizations in the United States on Part IX, column (A), line 1? *If 'Yes,' complete Schedule I, Parts I and II*	21	X	
22	Did the organization report more than $5,000 of grants and other assistance to individuals in the United States on Part IX, column (A), line 2? *If 'Yes,' complete Schedule I, Parts I and III*	22		X
23	Did the organization answer 'Yes' to Part VII, Section A, line 3, 4, or 5 about compensation of the organization's current and former officers, directors, trustees, key employees, and highest compensated employees? *If 'Yes,' complete Schedule J*	23	X	
24a	Did the organization have a tax-exempt bond issue with an outstanding principal amount of more than $100,000 as of the last day of the year, and that was issued after December 31, 2002? *If 'Yes,' answer lines 24b through 24d and complete Schedule K If 'No,'go to line 25*	24a	X	
b	Did the organization invest any proceeds of tax-exempt bonds beyond a temporary period exception?	24b		X
c	Did the organization maintain an escrow account other than a refunding escrow at any time during the year to defease any tax-exempt bonds?	24c		X
d	Did the organization act as an 'on behalf of' issuer for bonds outstanding at any time during the year?	24d		X
25a	**Section 501(c)(3) and 501(c)(4) organizations.** Did the organization engage in an excess benefit transaction with a disqualified person during the year? *If 'Yes,' complete Schedule L, Part I*	25a		X
b	Is the organization aware that it engaged in an excess benefit transaction with a disqualified person in a prior year, and that the transaction has not been reported on any of the organization's prior Forms 990 or 990-EZ? *If 'Yes,' complete Schedule L, Part I*	25b		X
26	Was a loan to or by a current or former officer, director, trustee, key employee, highly compensated employee, or disqualified person outstanding as of the end of the organization's tax year? *If 'Yes,' complete Schedule L, Part II*	26		X
27	Did the organization provide a grant or other assistance to an officer, director, trustee, key employee, substantial contributor or employee thereof, a grant selection committee member, or to a 35% controlled entity or family member of any of these persons? *If 'Yes,' complete Schedule L, Part III*	27		X
28	Was the organization a party to a business transaction with one of the following parties (see Schedule L, Part IV instructions for applicable filing thresholds, conditions, and exceptions)			
a	A current or former officer, director, trustee, or key employee? *If 'Yes,' complete Schedule L, Part IV*	28a	X	
b	A family member of a current or former officer, director, trustee, or key employee? *If 'Yes,' complete Schedule L, Part IV*	28b	X	
c	An entity of which a current or former officer, director, trustee, or key employee (or a family member thereof) was an officer, director, trustee, or direct or indirect owner? *If 'Yes,' complete Schedule L, Part IV*	28c	X	
29	Did the organization receive more than $25,000 in non-cash contributions? *If 'Yes,' complete Schedule M*	29		X
30	Did the organization receive contributions of art, historical treasures, or other similar assets, or qualified conservation contributions? *If 'Yes,' complete Schedule M*	30		X
31	Did the organization liquidate, terminate, or dissolve and cease operations? *If 'Yes,' complete Schedule N, Part I*	31		X
32	Did the organization sell, exchange, dispose of, or transfer more than 25% of its net assets? *If 'Yes,' complete Schedule N, Part II*	32		X
33	Did the organization own 100% of an entity disregarded as separate from the organization under Regulations sections 301 7701-2 and 301 7701-3? *If 'Yes,' complete Schedule R, Part I*	33	X	
34	Was the organization related to any tax-exempt or taxable entity? *If 'Yes,' complete Schedule R, Parts II, III, IV, and V, line 1*	34	X	
35a	Did the organization have a controlled entity within the meaning of section 512(b)(13)?	35a		X
b	Did the organization receive any payment from or engage in any transaction with a controlled entity within the meaning of section 512(b)(13)? *If 'Yes,' complete Schedule R, Part V, line 2*	35b		X
36	**Section 501(c)(3) organizations.** Did the organization make any transfers to an exempt non-charitable related organization? *If 'Yes,' complete Schedule R, Part V, line 2*	36		X
37	Did the organization conduct more than 5% of its activities through an entity that is not a related organization and that is treated as a partnership for federal income tax purposes? *If 'Yes,' complete Schedule R, Part VI*	37		X
38	Did the organization complete Schedule O and provide explanations in Schedule O for Part VI, lines 11 and 19? **Note.** All Form 990 filers are required to complete Schedule O	38	X	

Part V Statements Regarding Other IRS Filings and Tax Compliance

Check if Schedule O contains a response to any question in this Part V ☐

				Yes	No
1a	Enter the number reported in Box 3 of Form 1096 Enter -0- if not applicable	1a	6,209		
b	Enter the number of Forms W-2G included in line 1a Enter -0- if not applicable	1b	0		
c	Did the organization comply with backup withholding rules for reportable payments to vendors and reportable gaming (gambling) winnings to prize winners?	1c			X
2a	Enter the number of employees reported on Form W-3, Transmittal of Wage and Tax Statements, filed for the calendar year ending with or within the year covered by this return	2a	6,137		
b	If at least one is reported on line 2a, did the organization file all required federal employment tax returns?	2b		X	
	Note. If the sum of lines 1a and 2a is greater than 250, you may be required to *e-file* (see instructions)				
3a	Did the organization have unrelated business gross income of $1,000 or more during the year?	3a		X	
b	If 'Yes' has it filed a Form 990-T for this year? *If 'No,' provide an explanation in Schedule O*	3b		X	
4a	At any time during the calendar year, did the organization have an interest in, or a signature or other authority over, a financial account in a foreign country (such as a bank account, securities account, or other financial account)?	4a		X	
b	If 'Yes,' enter the name of the foreign country ► Cayman Islands				
	See instructions for filing requirements for Form TD F 90-22.1, Report of Foreign Bank and Financial Accounts				
5a	Was the organization a party to a prohibited tax shelter transaction at any time during the tax year?	5a			X
b	Did any taxable party notify the organization that it was or is a party to a prohibited tax shelter transaction?	5b			X
c	If 'Yes,' to line 5a or 5b, did the organization file Form 8886-T?	5c			
6a	Does the organization have annual gross receipts that are normally greater than $100,000, and did the organization solicit any contributions that were not tax deductible?	6a			X
b	If 'Yes,' did the organization include with every solicitation an express statement that such contributions or gifts were not tax deductible?	6b			
7	**Organizations that may receive deductible contributions under section 170(c).**				
a	Did the organization receive a payment in excess of $75 made partly as a contribution and partly for goods and services provided to the payor?	7a			X
b	If 'Yes,' did the organization notify the donor of the value of the goods or services provided?	7b			
c	Did the organization sell, exchange, or otherwise dispose of tangible personal property for which it was required to file Form 8282?	7c			X
d	If 'Yes,' indicate the number of Forms 8282 filed during the year	7d			
e	Did the organization receive any funds, directly or indirectly, to pay premiums on a personal benefit contract?	7e			X
f	Did the organization, during the year, pay premiums, directly or indirectly, on a personal benefit contract?	7f			X
g	If the organization received a contribution of qualified intellectual property, did the organization file Form 8899 as required?	7g			
h	If the organization received a contribution of cars, boats, airplanes, or other vehicles, did the organization file a Form 1098-C?	7h			
8	**Sponsoring organizations maintaining donor advised funds and section 509(a)(3) supporting organizations.** Did the supporting organization, or a donor advised fund maintained by a sponsoring organization, have excess business holdings at any time during the year?	8			
9	**Sponsoring organizations maintaining donor advised funds.**				
a	Did the organization make any taxable distributions under section 4966?	9a			
b	Did the organization make a distribution to a donor, donor advisor, or related person?	9b			
10	**Section 501(c)(7) organizations.** Enter:				
a	Initiation fees and capital contributions included on Part VIII, line 12	10a			
b	Gross receipts, included on Form 990, Part VIII, line 12, for public use of club facilities	10b			
11	**Section 501(c)(12) organizations.** Enter				
a	Gross income from members or shareholders	11a			
b	Gross income from other sources (Do not net amounts due or paid to other sources against amounts due or received from them.)	11b			
12a	**Section 4947(a)(1) non-exempt charitable trusts.** Is the organization filing Form 990 in lieu of Form 1041?	12a			
b	If 'Yes,' enter the amount of tax-exempt interest received or accrued during the year	12b			
13	**Section 501(c)(29) qualified nonprofit health insurance issuers.**				
a	Is the organization licensed to issue qualified health plans in more than one state?	13a			
	Note. See the instructions for additional information the organization must report on Schedule O				
b	Enter the amount of reserves the organization is required to maintain by the states in which the organization is licensed to issue qualified health plans	13b			
c	Enter the amount of reserves on hand	13c			
14a	Did the organization receive any payments for indoor tanning services during the tax year?	14a			X
b	If 'Yes,' has it filed a Form 720 to report these payments? *If 'No,' provide an explanation in Schedule O*	14b			

Part VI Governance, Management and Disclosure *For each 'Yes' response to lines 2 through 7b below, and for a 'No' response to line 8a, 8b, or 10b below, describe the circumstances, processes, or changes in Schedule O. See instructions.*

Check if Schedule O contains a response to any question in this Part VI [X]

Section A. Governing Body and Management

			Yes	No
1a	Enter the number of voting members of the governing body at the end of the tax year. If there are material differences in voting rights among members of the governing body, or if the governing body delegated broad authority to an executive committee or similar committee, explain in Schedule O.	1a 15		
b	Enter the number of voting members included in line 1a, above, who are independent	1b 13		
2	Did any officer, director, trustee, or key employee have a family relationship or a business relationship with any other officer, director, trustee or key employee?	2		X
3	Did the organization delegate control over management duties customarily performed by or under the direct supervision of officers, directors or trustees, or key employees to a management company or other person?	3		X
4	Did the organization make any significant changes to its governing documents since the prior Form 990 was filed?	4		X
5	Did the organization become aware during the year of a significant diversion of the organization's assets?	5		X
6	Did the organization have members or stockholders? See Schedule O	6	X	
7a	Did the organization have members, stockholders, or other persons who had the power to elect or appoint one or more members of the governing body? See Schedule O	7a	X	
b	Are any governance decisions of the organization reserved to (or subject to approval by) members, stockholders, or other persons other than the governing body?	7b		X
8	Did the organization contemporaneously document the meetings held or written actions undertaken during the year by the following:			
a	The governing body?	8a	X	
b	Each committee with authority to act on behalf of the governing body?	8b	X	
9	Is there any officer, director or trustee, or key employee listed in Part VII, Section A, who cannot be reached at the organization's mailing address? *If 'Yes,' provide the names and addresses in Schedule O*	9		X

Section B. Policies *(This Section B requests information about policies not required by the Internal Revenue Code.)*

			Yes	No
10a	Did the organization have local chapters, branches, or affiliates?	10a		X
b	If 'Yes,' did the organization have written policies and procedures governing the activities of such chapters, affiliates, and branches to ensure their operations are consistent with the organization's exempt purposes?	10b		
11a	Has the organization provided a complete copy of this Form 990 to all members of its governing body before filing the form?	11a	X	
b	Describe in Schedule O the process, if any, used by the organization to review this Form 990 See Schedule O			
12a	Did the organization have a written conflict of interest policy? *If 'No,' go to line 13*	12a	X	
b	Were officers, directors or trustees, and key employees required to disclose annually interests that could give rise to conflicts?	12b	X	
c	Did the organization regularly and consistently monitor and enforce compliance with the policy? *If 'Yes,' describe in Schedule O how this is done* See Schedule O	12c	X	
13	Did the organization have a written whistleblower policy?	13	X	
14	Did the organization have a written document retention and destruction policy?	14	X	
15	Did the process for determining compensation of the following persons include a review and approval by independent persons, comparability data, and contemporaneous substantiation of the deliberation and decision?			
a	The organization's CEO, Executive Director, or top management official	15a	X	
b	Other officers of key employees of the organization See Schedule O	15b	X	
	If 'Yes' to line 15a or 15b, describe the process in Schedule O (See instructions.)			
16a	Did the organization invest in, contribute assets to, or participate in a joint venture or similar arrangement with a taxable entity during the year?	16a	X	
b	If 'Yes,' did the organization follow a written policy or procedure requiring the organization to evaluate its participation in joint venture arrangements under applicable federal tax law, and taken steps to safeguard the organization's exempt status with respect to such arrangements?	16b	X	

Section C. Disclosure

17 List the states with which a copy of this Form 990 is required to be filed ► None

18 Section 6104 requires an organization to make its Forms 1023 (or 1024 if applicable), 990, and 990-T (501(c)(3)s only) available for public inspection Indicate how you make these available Check all that apply

[ ] Own website [X] Another's website [X] Upon request

19 Describe in Schedule O whether (and if so, how) the organization makes its governing documents, conflict of interest policy, and financial statements available to the public during the tax year. See Schedule O

20 State the name, physical address, and telephone number of the person who possesses the books and records of the organization

► SHELLY BOWMAN-ALLEN 220 CAMPUS BLVD, SUITE 310 WINCHESTER VA 22601 540-536-4302

Part VII Compensation of Officers, Directors, Trustees, Key Employees, Highest Compensated Employees, and Independent Contractors

Check if Schedule O contains a response to any question in this Part VII ☐

Section A. Officers, Directors, Trustees, Key Employees, and Highest Compensated Employees

1a Complete this table for all persons required to be listed. Report compensation for the calendar year ending with or within the organization's tax year.

- List all of the organization's **current** officers, directors, trustees (whether individuals or organizations), regardless of amount of compensation. Enter -0- in columns (D), (E), and (F) if no compensation was paid
- List all of the organization's **current** key employees, if any See instructions for definition of 'key employee.'
- List the organization's five **current** highest compensated employees (other than an officer, director, trustee, or key employee) who received reportable compensation (Box 5 of Form W-2 and/or Box 7 of Form 1099-MISC) of more than $100,000 from the organization and any related organizations.
- List all of the organization's **former** officers, key employees, and highest compensated employees who received more than $100,000 of reportable compensation from the organization and any related organizations
- List all of the organization's **former directors or trustees** that received, in the capacity as a former director or trustee of the organization, more than $10,000 of reportable compensation from the organization and any related organizations

List persons in the following order: individual trustees or directors, institutional trustees; officers; key employees; highest compensated employees, and former such persons.

☐ Check this box if neither the organization nor any related organization compensated any current officer, director, or trustee

(A) Name and title	(B) Average hours per week (describe hours for related organizations in Schedule O)	(C) Position (do not check more than one box, unless person is both an officer and a director/trustee)						(D) Reportable compensation from the organization (W-2/1099-MISC)	(E) Reportable compensation from related organizations (W-2/1099-MISC)	(F) Estimated amount of other compensation from the organization and related organizations
		Individual trustee or director	Institutional trustee	Officer	Key employee	Highest compensated employee	Former			
(1) THOMAS T GILPIN Trustee	2	X						0.	1,500.	0.
(2) MARK H. MERRILL President & CEO	40	X		X				723,437.	0.	169,638.
(3) CLIFTON L. RUTHERFORD Trustee	2	X						0.	600.	0.
(4) F. DIXON WHITWORTH, JR. Chairman	2	X						1,800.	0.	0.
(5) JAMES T HOLLAND Trustee	2	X						1,500.	0.	0.
(6) JOHN S SCULLY, IV Trustee	2	X						0.	900.	0.
(7) JOSEPH F. SILEK, JR Trustee	2	X						4,017.	0.	0.
(8) JIM LONG Trustee	2	X						0.	0.	0.
(9) HARRY F. BYRD, III Secretary	2	X						1,800.	0.	0.
(10) DOUGLAS B. KEIM, MD Trustee	2	X						900.	1,350.	0.
(11) WILLIAM B MAJOR, MD Trustee	2	X						0.	0.	0.
(12) WILLIAM F. BRANDT, JR. VICE CHAIRMAN	2	X						0.	0.	0.
(13) PATRICK D. IRELAND, MD TRUSTEE/PHYS	2	X						0.	265,598.	0.
(14) FAITH B. POWER Trustee	2	X						600.	0.	0.

Part VII Section A. Officers, Directors, Trustees, Key Employees, and Highest Compensated Employees *(cont)*

(A) Name and title	(B) Average hours per week (describe hours for related organizations in Sch O)	(C) Position (do not check more than one box, unless person is both an officer and a director/trustee)						(D) Reportable compensation from the organization (W-2/1099-MISC)	(E) Reportable compensation from related organizations (W-2/1099-MISC)	(F) Estimated amount of other compensation from the organization and related organizations
		Individual trustee or director	Institutional trustee	Officer	Key employee	Highest compensated employee	Former			
(15) HARRY S. SMITH Trustee	2	X						0.	0.	0.
(16) J CRAIG LEWIS CFO	40			X				411,926.	0.	87,010.
(17) ALFRED E PILONG, JR Vice President	40			X				0.	434,064.	90,425.
(18) NEIL MCLAUGHLIN Vice President	40			X				0.	167,744.	33,389.
(19) JOAN ROSCOE Vice President	40			X				256,967.	0.	44,399.
(20) WES WILLIAMS Vice President	40			X				197,670.	0.	41,180.
(21) MARVIN T WAY Vice President	40			X				382,266.	0.	77,164.
(22) ELIZABETH SAVAGE-TRACY Vice President	40			X				237,883.	0.	48,949.
(23) ROBERT AMOS CFO-WMC	40			X				220,412.	0.	28,836.
(24) DAVID JAMES HUBER, MD Vice President	40			X				378,914.	0.	14,636.
(25) NELSON T CLARK Vice President	40			X				0.	181,233.	27,933.
1b Sub-total							►	2,820,092.	1,052,989.	663,559.
c Total from continuation sheets to Part VII, Section A							►	1,091,968.	1,165,966.	357,475.
d Total (add lines 1b and 1c)							►	3,912,060.	2,218,955.	1,021,034.

2 Total number of individuals (including but not limited to those listed above) who received more than $100,000 of reportable compensation from the organization ► 66

		Yes	No
3 Did the organization list any **former** officer, director or trustee, key employee, or highest compensated employee on line 1a? *If 'Yes,' complete Schedule J for such individual*	3	X	
4 For any individual listed on line 1a, is the sum of reportable compensation and other compensation from the organization and related organizations greater than $150,000? *If 'Yes' complete Schedule J for such individual*	4	X	
5 Did any person listed on line 1a receive or accrue compensation from any unrelated organization or individual for services rendered to the organization? *If 'Yes,' complete Schedule J for such person*	5		X

Section B. Independent Contractors

1 Complete this table for your five highest compensated independent contractors that received more than $100,000 of compensation from the organization Report compensation for the calendar year ending with or within the organization's tax year

(A) Name and business address	(B) Description of services	(C) Compensation
WINCHESTER EMERGENCY PHYSICIANS 80 PEACHTREE ROAD, STE 200 ASHEVILLE	PHYSICIAN SERVICES	9,335,690.
HMP OF FRONT ROYAL, LLC 4535 DRESSLER ROAD NW CANTON, OH 44718	PHYSICIAN SERVICES	3,490,163.
FRONT ROYAL EMERGENCY PHYSICIANS 80 PEACHTREE ROAD, STE 200 ASHEVILL	PHYSICIAN SERVICES	2,581,424.
PERKINS + WILL 1250 24TH ST, NW STE 800 WASHINGTON, DC 20037	CONSTRUCTION DESIGN	2,093,657.
SHENANDOAH EMERGENCY PHYSICIANS 80 PEACHTREE ROAD, STE 200 ASHEVILLE	PHYSICIAN SERVICES	2,063,661.

2 Total number of independent contractors (including but not limited to those listed above) who received more than $100,000 in compensation from the organization ► 85

Form 990

Department of the Treasury
Internal Revenue Service

Continuation Sheet for Form 990

OMB No 1545-0047

2011

Name of the Organization: VALLEY HEALTH SYSTEM

Employer Identification number: 52-1357729

Part VII Continuation: Officers, Directors, Trustees, Key Employees, and Highest Compensated Employees

(A) Name and Title	(B) Average hours per week	(C) Position (check all that apply)						(D) Reportable compensation from the organization (W-2/1099-MISC)	(E) Reportable compensation from related organizations (W-2/1099-MISC)	(F) Estimated amount of other compensation from the organization and related organizations
		Individual trustee or director	Institutional trustee	Officer	Key employee	Highest compensated employee	Former			
FLOYD R. HEATER Vice President	40			X				0.	241,651.	50,284.
PATRICK B. NOLAN Vice President	40			X				0.	206,909.	45,474.
DENA KENT Vice President	40			X				0.	225,886.	48,098.
TONYA SMITH Vice President	40			X				0.	220,973.	47,977.
ANDREW COHEN Vice President	40			X				0.	270,547.	33,024.
FRANCIS X DENNEHY DIR RESIDENCY	40					X		229,723.	0.	30,664.
NEAL MCKNIGHT COR DIR PAT ACT	40					X		193,427.	0.	17,156.
RICHARD BRUCE CARLSON COR DIR MAT MGM	40					X		201,460.	0.	25,888.
CHRISTOPHER GOODITIS DIR IS TECH SERV	40					X		183,495.	0.	28,051.
BRET D. RIPLEY AS DIR RESIDNECY	40					X		201,573.	0.	16,824.
ADRIENNE MCKENNA VP HUMAN RESOURCES							X	82,290.	0.	14,035.

Part VIII Statement of Revenue

		(A) Total revenue	(B) Related or exempt function revenue	(C) Unrelated business revenue	(D) Revenue excluded from tax under sections 512, 513, or 514
CONTRIBUTIONS, GIFTS, GRANTS AND OTHER SIMILAR AMOUNTS	1a Federated campaigns 1a				
	b Membership dues 1b				
	c Fundraising events 1c				
	d Related organizations 1d 18,782.				
	e Government grants (contributions) 1e 575,279.				
	f All other contributions, gifts, grants, and similar amounts not included above 1f				
	g Noncash contributions included in lns 1a-1f: $				
	h **Total.** Add lines 1a-1f ►	594,061.			
PROGRAM SERVICE REVENUE		Business Code			
	2a CORPORATE MANAGEMENT FEES		67,364,737.	67,364,737.	
	b WELLNESS FEE REVENUE		3,404,479.	3,404,479.	
	c CLINICAL RESEARCH REVENUE		752,962.	752,962.	
	d CONTRACTED SERVICES		52,082.	52,082.	
	e				
	f All other program service revenue				
	g **Total.** Add lines 2a-2f ►	71,574,260.			
OTHER REVENUE	3 Investment income (including dividends, interest and other similar amounts) ►	4,317,120.		67,850.	4,249,270.
	4 Income from investment of tax-exempt bond proceeds ►				
	5 Royalties ►				
		(i) Real / (ii) Personal			
	6a Gross rents 1,350.				
	b Less rental expenses				
	c Rental income or (loss) 1,350.				
	d Net rental income or (loss) ►	1,350.			1,350.
		(i) Securities / (ii) Other			
	7a Gross amount from sales of assets other than inventory				
	b Less: cost or other basis and sales expenses				
	c Gain or (loss)				
	d Net gain or (loss) ►				
	8a Gross income from fundraising events (not including $ ____ of contributions reported on line 1c) See Part IV, line 18 a				
	b Less direct expenses b				
	c Net income or (loss) from fundraising events ►				
	9a Gross income from gaming activities See Part IV, line 19 a				
	b Less direct expenses b				
	c Net income or (loss) from gaming activities ►				
	10a Gross sales of inventory, less returns and allowances a 488,561.				
	b Less: cost of goods sold b 555,490.				
	c Net income or (loss) from sales of inventory ►	-66,929.		-5,829.	-61,100.
	Miscellaneous Revenue	Business Code			
	11a				
	b				
	c				
	d All other revenue				
	e **Total.** Add lines 11a-11d ►				
	12 **Total revenue.** See instructions ►	76,419,862.	71,574,260.	62,021.	4,189,520.

Part IX Statement of Functional Expenses

Section 501(c)(3) and 501(c)(4) organizations must complete all columns.
All other organizations must complete column (A) but are not required to complete columns (B), (C), and (D).

Check if Schedule O contains a response to any question in this Part IX ☐

Do not include amounts reported on lines 6b, 7b, 8b, 9b, and 10b of Part VIII.	(A) Total expenses	(B) Program service expenses	(C) Management and general expenses	(D) Fundraising expenses
1 Grants and other assistance to governments and organizations in the United States See Part IV, line 21	299,022.	299,022.		
2 Grants and other assistance to individuals in the United States See Part IV, line 22				
3 Grants and other assistance to governments, organizations, and individuals outside the United States See Part IV, lines 15 and 16				
4 Benefits paid to or for members				
5 Compensation of current officers, directors, trustees, and key employees	3,321,288.	3,321,288.	0.	0.
6 Compensation not included above, to disqualified persons (as defined under section 4958(f)(1)) and persons described in section 4958(c)(3)(B)	96,325.	96,325.	0.	0.
7 Other salaries and wages	36,849,392.	36,333,867.		515,525.
8 Pension plan accruals and contributions (include section 401(k) and section 403(b) employer contributions)	2,210,935.	2,180,004.		30,931.
9 Other employee benefits	4,923,149.	4,854,274.		68,875.
10 Payroll taxes	3,007,111.	2,966,429.		40,682.
11 Fees for services (non-employees)				
a Management				
b Legal	1,086,060.	1,086,060.		
c Accounting	29,836.	29,836.		
d Lobbying				
e Professional fundraising services. See Part IV, line 17				
f Investment management fees				
g Other	963,541.	963,541.		
12 Advertising and promotion	1,425,964.	1,425,896.		68.
13 Office expenses	2,782,885.	2,756,211.		26,674.
14 Information technology	4,680,145.	4,672,055.		8,090.
15 Royalties				
16 Occupancy	1,168,716.	1,168,696.		20.
17 Travel	653,768.	641,747.		12,021.
18 Payments of travel or entertainment expenses for any federal, state, or local public officials				
19 Conferences, conventions, and meetings	252,616.	153,193.		99,423.
20 Interest				
21 Payments to affiliates				
22 Depreciation, depletion, and amortization	24,918.	24,918.		
23 Insurance	160,102.	160,102.		
24 Other expenses Itemize expenses not covered above (List miscellaneous expenses in line 24e If line 24e amount exceeds 10% of line 25, column (A) amount, list line 24e expenses on Schedule O)				
a PURCHASED SERVICES	8,178,020.	8,177,806.		214.
b EQUIP RENTAL & MAINT	5,731,336.	5,731,336.		
c SUPPLIES	3,691,802.	3,679,511.		12,291.
d EMPLOYEE RELATIONS	1,267,783.	1,234,678.		33,105.
e All other expenses	-5,034,005.	-5,065,903.		31,898.
25 **Total functional expenses.** Add lines 1 through 24e	77,770,709.	76,890,892.	0.	879,817.
26 **Joint costs.** Complete this line only if the organization reported in column (B) joint costs from a combined educational campaign and fundraising solicitation Check here ► ☐ if following SOP 98-2 (ASC 958-720)				

Part X Balance Sheet

				(A) Beginning of year		(B) End of year
ASSETS	1	Cash – non-interest-bearing		4,201,494.	1	3,003,968.
	2	Savings and temporary cash investments			2	
	3	Pledges and grants receivable, net			3	
	4	Accounts receivable, net			4	
	5	Receivables from current and former officers, directors, trustees, key employees, and highest compensated employees Complete Part II of Schedule L			5	
	6	Receivables from other disqualified persons (as defined under section 4958(f)(1)), persons described in section 4958(c)(3)(B), and contributing employers and sponsoring organizations of section 501(c)(9) voluntary employees' beneficiary organizations (see instructions)			6	
	7	Notes and loans receivable, net		22,396,810.	7	29,317,846.
	8	Inventories for sale or use		1,449,597.	8	1,587,336.
	9	Prepaid expenses and deferred charges		4,398,403.	9	2,226,062.
	10a	Land, buildings, and equipment cost or other basis Complete Part VI of Schedule D	10a 224,964.			
	b	Less accumulated depreciation	10b 150,750.	106,592.	10c	74,214.
	11	Investments – publicly traded securities			11	
	12	Investments – other securities See Part IV, line 11			12	
	13	Investments – program-related See Part IV, line 11			13	
	14	Intangible assets			14	
	15	Other assets. See Part IV, line 11		8,665,863.	15	10,790,015.
	16	**Total assets.** Add lines 1 through 15 (must equal line 34)		41,218,759.	16	46,999,441.
LIABILITIES	17	Accounts payable and accrued expenses		47,276,035.	17	50,045,008.
	18	Grants payable			18	
	19	Deferred revenue		132,497.	19	141,540.
	20	Tax-exempt bond liabilities			20	
	21	Escrow or custodial account liability Complete Part IV of Schedule D			21	
	22	Payables to current and former officers, directors, trustees, key employees, highest compensated employees, and disqualified persons Complete Part II of Schedule L			22	
	23	Secured mortgages and notes payable to unrelated third parties			23	
	24	Unsecured notes and loans payable to unrelated third parties			24	
	25	Other liabilities (including federal income tax, payables to related third parties, and other liabilities not included on lines 17-24). Complete Part X of Schedule D		757,278.	25	1,035,622.
	26	**Total liabilities.** Add lines 17 through 25		48,165,810.	26	51,222,170.
NET ASSETS OR FUND BALANCES		**Organizations that follow SFAS 117, check here ► [X] and complete lines 27 through 29 and lines 33 and 34.**				
	27	Unrestricted net assets		-6,947,051.	27	-4,222,729.
	28	Temporarily restricted net assets			28	
	29	Permanently restricted net assets			29	
		Organizations that do not follow SFAS 117, check here ► [ ] and complete lines 30 through 34.				
	30	Capital stock or trust principal, or current funds			30	
	31	Paid-in or capital surplus, or land, building, or equipment fund			31	
	32	Retained earnings, endowment, accumulated income, or other funds			32	
	33	Total net assets or fund balances		-6,947,051.	33	-4,222,729.
	34	Total liabilities and net assets/fund balances		41,218,759.	34	46,999,441.

Part XI Reconciliation of Net Assets

Check if Schedule O contains a response to any question in this Part XI [X]

1	Total revenue (must equal Part VIII, column (A), line 12)	1	76,419,862.
2	Total expenses (must equal Part IX, column (A), line 25)	2	77,770,709.
3	Revenue less expenses Subtract line 2 from line 1	3	-1,350,847.
4	Net assets or fund balances at beginning of year (must equal Part X, line 33, column (A))	4	-6,947,051.
5	Other changes in net assets or fund balances (explain in Schedule O) See Schedule O	5	4,075,169.
6	Net assets or fund balances at end of year. Combine lines 3, 4, and 5 (must equal Part X, line 33, column (B))	6	-4,222,729.

Part XII Financial Statements and Reporting

Check if Schedule O contains a response to any question in this Part XII [ ]

			Yes	No
1	Accounting method used to prepare the Form 990: [ ] Cash [X] Accrual [ ] Other _____ If the organization changed its method of accounting from a prior year or checked 'Other,' explain in Schedule O.			
2a	Were the organization's financial statements compiled or reviewed by an independent accountant?	2a		X
b	Were the organization's financial statements audited by an independent accountant?	2b	X	
c	If 'Yes' to line 2a or 2b, does the organization have a committee that assumes responsibility for oversight of the audit, review, or compilation of its financial statements and selection of an independent accountant? If the organization changed either its oversight process or selection process during the tax year, explain in Schedule O	2c	X	
d	If 'Yes' to line 2a or 2b, check a box below to indicate whether the financial statements for the year were issued on a separate basis, consolidated basis, or both: [ ] Separate basis [X] Consolidated basis [ ] Both consolidated and separate basis			
3a	As a result of a federal award, was the organization required to undergo an audit or audits as set forth in the Single Audit Act and OMB Circular A-133?	3a		X
b	If 'Yes,' did the organization undergo the required audit or audits? If the organization did not undergo the required audit or audits, explain why in Schedule O and describe any steps taken to undergo such audits	3b		

SCHEDULE A (Form 990 or 990-EZ)

Department of the Treasury
Internal Revenue Service

Public Charity Status and Public Support

Complete if the organization is a section 501(c)(3) organization or a section 4947(a)(1) nonexempt charitable trust.

► **Attach to Form 990 or Form 990-EZ.** ► **See separate instructions.**

OMB No 1545-0047

2011

Open to Public Inspection

Name of the organization	**Employer identification number**
VALLEY HEALTH SYSTEM	52-1357729

Part I Reason for Public Charity Status (All organizations must complete this part.) See instructions.

The organization is not a private foundation because it is: (For lines 1 through 11, check only one box.)

1 ☐ A church, convention of churches or association of churches described in **section 170(b)(1)(A)(i).**

2 ☐ A school described in **section 170(b)(1)(A)(ii).** (Attach Schedule E)

3 ☒ A hospital or a cooperative hospital service organization described in **section 170(b)(1)(A)(iii).**

4 ☐ A medical research organization operated in conjunction with a hospital described in **section 170(b)(1)(A)(iii).** Enter the hospital's name, city, and state

5 ☐ An organization operated for the benefit of a college or university owned or operated by a governmental unit described in **section 170(b)(1)(A)(iv).** (Complete Part II.)

6 ☐ A federal, state, or local government or governmental unit described in **section 170(b)(1)(A)(v).**

7 ☐ An organization that normally receives a substantial part of its support from a governmental unit or from the general public described in **section 170(b)(1)(A)(vi).** (Complete Part II)

8 ☐ A community trust described in **section 170(b)(1)(A)(vi).** (Complete Part II.)

9 ☐ An organization that normally receives: (1) more than 33-1/3% of its support from contributions, membership fees, and gross receipts from activities related to its exempt functions – subject to certain exceptions, and (2) no more than 33-1/3% of its support from gross investment income and unrelated business taxable income (less section 511 tax) from businesses acquired by the organization after June 30, 1975 See **section 509(a)(2).** (Complete Part III)

10 ☐ An organization organized and operated exclusively to test for public safety See **section 509(a)(4).**

11 ☐ An organization organized and operated exclusively for the benefit of, to perform the functions of, or carry out the purposes of one or more publicly supported organizations described in section 509(a)(1) or section 509(a)(2). See **section 509(a)(3).** Check the box that describes the type of supporting organization and complete lines 11e through 11h.

a ☐ Type I **b** ☐ Type II **c** ☐ Type III – Functionally integrated **d** ☐ Type III – Other

e ☐ By checking this box, I certify that the organization is not controlled directly or indirectly by one or more disqualified persons other than foundation managers and other than one or more publicly supported organizations described in section 509(a)(1) or section 509(a)(2).

f If the organization received a written determination from the IRS that is a Type I, Type II or Type III supporting organization, check this box ☐

g Since August 17, 2006, has the organization accepted any gift or contribution from any of the following persons?

		Yes	No
(i)	A person who directly or indirectly controls, either alone or together with persons described in (ii) and (iii) below, the governing body of the supported organization?	**11g (i)**	
(ii)	A family member of a person described in (i) above?	**11g (ii)**	
(iii)	A 35% controlled entity of a person described in (i) or (ii) above?	**11g (iii)**	

h Provide the following information about the supported organization(s)

	(i) Name of supported organization	(ii) EIN	(iii) Type of organization (described on lines 1-9 above or IRC section (see instructions))	(iv) Is the organization in column (i) listed in your governing document? Yes	(iv) No	(v) Did you notify the organization in column (i) of your support? Yes	(v) No	(vi) Is the organization in column (i) organized in the U S ? Yes	(vi) No	(vii) Amount of support
(A)										
(B)										
(C)										
(D)										
(E)										
Total										

Part II Support Schedule for Organizations Described in Sections 170(b)(1)(A)(iv) and 170(b)(1)(A)(vi)

(Complete only if you checked the box on line 5, 7, or 8 of Part I or if the organization failed to qualify under Part III If the organization fails to qualify under the tests listed below, please complete Part III)

Section A. Public Support

Calendar year (or fiscal year beginning in) ►	(a) 2007	(b) 2008	(c) 2009	(d) 2010	(e) 2011	(f) Total
1 Gifts, grants, contributions, and membership fees received. (Do not include any 'unusual grants.')						
2 Tax revenues levied for the organization's benefit and either paid to or expended on its behalf						
3 The value of services or facilities furnished by a governmental unit to the organization without charge						
4 **Total.** Add lines 1 through 3						
5 The portion of total contributions by each person (other than a governmental unit or publicly supported organization) included on line 1 that exceeds 2% of the amount shown on line 11, column (f)						
6 **Public support.** Subtract line 5 from line 4						

Section B. Total Support

Calendar year (or fiscal year beginning in) ►	(a) 2007	(b) 2008	(c) 2009	(d) 2010	(e) 2011	(f) Total
7 Amounts from line 4						
8 Gross income from interest, dividends, payments received on securities loans, rents, royalties and income from similar sources						
9 Net income from unrelated business activities, whether or not the business is regularly carried on						
10 Other income. Do not include gain or loss from the sale of capital assets (Explain in Part IV.)						
11 **Total support.** Add lines 7 through 10						

12 Gross receipts from related activities, etc (see instructions) **12**

13 **First five years.** If the Form 990 is for the organization's first, second, third, fourth, or fifth tax year as a section 501(c)(3) organization, check this box and **stop here** ► ☐

Section C. Computation of Public Support Percentage

14 Public support percentage for 2011 (line 6, column (f) divided by line 11, column (f))	**14**	%
15 Public support percentage from 2010 Schedule A, Part II, line 14	**15**	%

16a **33-1/3% support test – 2011.** If the organization did not check the box on line 13, and the line 14 is 33-1/3% or more, check this box and **stop here.** The organization qualifies as a publicly supported organization ► ☐

b **33-1/3% support test – 2010.** If the organization did not check a box on line 13 or 16a, and line 15 is 33-1/3% or more, check this box and **stop here.** The organization qualifies as a publicly supported organization ► ☐

17a **10%-facts-and-circumstances test – 2011.** If the organization did not check a box on line 13, 16a, or 16b, and line 14 is 10% or more, and if the organization meets the 'facts-and-circumstances' test, check this box and **stop here.** Explain in Part IV how the organization meets the 'facts-and-circumstances' test The organization qualifies as a publicly supported organization ► ☐

b **10%-facts-and-circumstances test – 2010.** If the organization did not check a box on line 13, 16a, 16b, or 17a, and line 15 is 10% or more, and if the organization meets the 'facts-and-circumstances' test, check this box and **stop here.** Explain in Part IV how the organization meets the 'facts-and-circumstances' test. The organization qualifies as a publicly supported organization ► ☐

18 **Private foundation.** If the organization did not check a box on line 13, 16a, 16b, 17a, or 17b, check this box and see instructions ► ☐

Part III Support Schedule for Organizations Described in Section 509(a)(2)

(Complete only if you checked the box on line 9 of Part I or if the organization failed to qualify under Part II. If the organization fails to qualify under the tests listed below, please complete Part II.)

Section A. Public Support

Calendar year (or fiscal yr beginning in) ►	(a) 2007	(b) 2008	(c) 2009	(d) 2010	(e) 2011	(f) Total
1 Gifts, grants, contributions and membership fees received (Do not include any 'unusual grants.')						
2 Gross receipts from admissions, merchandise sold or services performed, or facilities furnished in any activity that is related to the organization's tax-exempt purpose						
3 Gross receipts from activities that are not an unrelated trade or business under section 513						
4 Tax revenues levied for the organization's benefit and either paid to or expended on its behalf						
5 The value of services or facilities furnished by a governmental unit to the organization without charge						
6 **Total.** Add lines 1 through 5						
7a Amounts included on lines 1, 2, and 3 received from disqualified persons						
b Amounts included on lines 2 and 3 received from other than disqualified persons that exceed the greater of $5,000 or 1% of the amount on line 13 for the year						
c Add lines 7a and 7b						
8 **Public support** (Subtract line 7c from line 6.)						

Section B. Total Support

Calendar year (or fiscal yr beginning in) ►	(a) 2007	(b) 2008	(c) 2009	(d) 2010	(e) 2011	(f) Total
9 Amounts from line 6						
10a Gross income from interest, dividends, payments received on securities loans, rents, royalties and income from similar sources						
b Unrelated business taxable income (less section 511 taxes) from businesses acquired after June 30, 1975						
c Add lines 10a and 10b						
11 Net income from unrelated business activities not included in line 10b, whether or not the business is regularly carried on						
12 Other income Do not include gain or loss from the sale of capital assets (Explain in Part IV)						
13 **Total support.** (Add lns 9, 10c, 11, and 12)						

14 **First five years.** If the Form 990 is for the organization's first, second, third, fourth, or fifth tax year as a section 501(c)(3) organization, check this box and **stop here** ► ☐

Section C. Computation of Public Support Percentage

15 Public support percentage for 2011 (line 8, column (f) divided by line 13, column (f))	15	%
16 Public support percentage from 2010 Schedule A, Part III, line 15	16	%

Section D. Computation of Investment Income Percentage

17 Investment income percentage for **2011** (line 10c, column (f) divided by line 13, column (f))	17	%
18 Investment income percentage from **2010** Schedule A, Part III, line 17	18	%

19a **33-1/3% support tests – 2011.** If the organization did not check the box on line 14, and line 15 is more than 33-1/3%, and line 17 is not more than 33-1/3%, check this box and **stop here.** The organization qualifies as a publicly supported organization ► ☐

b **33-1/3% support tests – 2010.** If the organization did not check a box on line 14 or line 19a, and line 16 is more than 33-1/3%, and line 18 is not more than 33-1/3%, check this box and **stop here.** The organization qualifies as a publicly supported organization ► ☐

20 **Private foundation.** If the organization did not check a box on line 14, 19a, or 19b, check this box and see instructions ► ☐

Part IV Supplemental Information. Complete this part to provide the explanations required by Part II, line 10; Part II, line 17a or 17b; and Part III, line 12. Also complete this part for any additional information. (See instructions).

SCHEDULE D (Form 990)

Department of the Treasury
Internal Revenue Service

Supplemental Financial Statements

► Complete if the organization answered 'Yes,' to Form 990, Part IV, lines 6, 7, 8, 9, 10, 11a, 11b, 11c, 11d, 11e, 11f, 12a, or 12b.
► Attach to Form 990. ► See separate instructions.

OMB No 1545-0047

2011

Open to Public Inspection

Name of the organization

VALLEY HEALTH SYSTEM

Employer identification number

52-1357729

Part I Organizations Maintaining Donor Advised Funds or Other Similar Funds or Accounts. Complete if the organization answered 'Yes' to Form 990, Part IV, line 6.

	(a) Donor advised funds	(b) Funds and other accounts
1 Total number at end of year		
2 Aggregate contributions to (during year)		
3 Aggregate grants from (during year)		
4 Aggregate value at end of year		

5 Did the organization inform all donors and donor advisors in writing that the assets held in donor advised funds are the organization's property, subject to the organization's exclusive legal control? ☐ Yes ☐ No

6 Did the organization inform all grantees, donors, and donor advisors in writing that grant funds can be used only for charitable purposes and not for the benefit of the donor or donor advisor, or for any other purpose conferring impermissible private benefit? ☐ Yes ☐ No

Part II Conservation Easements. Complete if the organization answered 'Yes' to Form 990, Part IV, line 7.

1 Purpose(s) of conservation easements held by the organization (check all that apply)

☐ Preservation of land for public use (e g , recreation or education)
☐ Protection of natural habitat
☐ Preservation of open space
☐ Preservation of an historically important land area
☐ Preservation of a certified historic structure

2 Complete lines 2a through 2d if the organization held a qualified conservation contribution in the form of a conservation easement on the last day of the tax year

		Held at the End of the Tax Year
a Total number of conservation easements	2a	
b Total acreage restricted by conservation easements	2b	
c Number of conservation easements on a certified historic structure included in (a)	2c	
d Number of conservation easements included in (c) acquired after 8/17/06, and not on a historic structure listed in the National Register	2d	

3 Number of conservation easements modified, transferred, released, extinguished, or terminated by the organization during the tax year ► _____

4 Number of states where property subject to conservation easement is located ► _____

5 Does the organization have a written policy regarding the periodic monitoring, inspection, handling of violations, and enforcement of the conservation easements it holds? ☐ Yes ☐ No

6 Staff and volunteer hours devoted to monitoring, inspecting, and enforcing conservation easements during the year ► _____

7 Amount of expenses incurred in monitoring, inspecting, and enforcing conservation easements during the year ► $ _____

8 Does each conservation easement reported on line 2(d) above satisfy the requirements of section 170(h)(4)(B)(i) and section 170(h)(4)(B)(ii)? ☐ Yes ☐ No

9 In Part XIV, describe how the organization reports conservation easements in its revenue and expense statement, and balance sheet, and include, if applicable, the text of the footnote to the organization's financial statements that describes the organization's accounting for conservation easements.

Part III Organizations Maintaining Collections of Art, Historical Treasures, or Other Similar Assets. Complete if the organization answered 'Yes' to Form 990, Part IV, line 8.

1a If the organization elected, as permitted under SFAS 116 (ASC 958), not to report in its revenue statement and balance sheet works of art, historical treasures, or other similar assets held for public exhibition, education, or research in furtherance of public service, provide, in Part XIV, the text of the footnote to its financial statements that describes these items

b If the organization elected, as permitted under SFAS 116 (ASC 958), to report in its revenue statement and balance sheet works of art, historical treasures, or other similar assets held for public exhibition, education, or research in furtherance of public service, provide the following amounts relating to these items

(i) Revenues included in Form 990, Part VIII, line 1 ► $ _____

(ii) Assets included in Form 990, Part X ► $ _____

2 If the organization received or held works of art, historical treasures, or other similar assets for financial gain, provide the following amounts required to be reported under SFAS 116 (ASC 958) relating to these items:

a Revenues included in Form 990, Part VIII, line 1 ► $ _____

b Assets included in Form 990, Part X ► $ _____

Part III Organizations Maintaining Collections of Art, Historical Treasures, or Other Similar Assets *(continued)*

3 Using the organization's acquisition, accession, and other records, check any of the following that are a significant use of its collection items (check all that apply):

a ☐ Public exhibition
b ☐ Scholarly research
c ☐ Preservation for future generations
d ☐ Loan or exchange programs
e ☐ Other _____

4 Provide a description of the organization's collections and explain how they further the organization's exempt purpose in Part XIV

5 During the year, did the organization solicit or receive donations of art, historical treasures, or other similar assets to be sold to raise funds rather than to be maintained as part of the organization's collection? ☐ Yes ☐ No

Part IV Escrow and Custodial Arrangements. Complete if the organization answered 'Yes' to Form 990, Part IV, line 9, or reported an amount on Form 990, Part X, line 21.

1a Is the organization an agent, trustee, custodian, or other intermediary for contributions or other assets not included on Form 990, Part X? ☐ Yes ☐ No

b If 'Yes,' explain the arrangement in Part XIV and complete the following table:

		Amount
c Beginning balance	1c	
d Additions during the year	1d	
e Distributions during the year	1e	
f Ending balance	1f	

2a Did the organization include an amount on Form 990, Part X, line 21? ☐ Yes ☐ No

b If 'Yes,' explain the arrangement in Part XIV.

Part V Endowment Funds. Complete if the organization answered 'Yes' to Form 990, Part IV, line 10.

	(a) Current year	(b) Prior year	(c) Two years back	(d) Three years back	(e) Four years back
1a Beginning of year balance					
b Contributions					
c Net investment earnings, gains, and losses					
d Grants or scholarships					
e Other expenditures for facilities and programs					
f Administrative expenses					
g End of year balance					

2 Provide the estimated percentage of the current year end balance (line 1g, column (a)) held as:

a Board designated or quasi-endowment ► _____ %
b Permanent endowment ► _____ %
c Temporarily restricted endowment ► _____ %

The percentages in lines 2a, 2b, and 2c should equal 100%

3a Are there endowment funds not in the possession of the organization that are held and administered for the organization by

	Yes	No
(i) unrelated organizations (3a(i))		
(ii) related organizations (3a(ii))		
b If 'Yes' to 3a(ii), are the related organizations listed as required on Schedule R? (3b)		

4 Describe in Part XIV the intended uses of the organization's endowment funds

Part VI Land, Buildings, and Equipment. See Form 990, Part X, line 10.

Description of property	(a) Cost or other basis (investment)	(b) Cost or other basis (other)	(c) Accumulated depreciation	(d) Book value
1a Land				
b Buildings				
c Leasehold improvements				
d Equipment		224,964.	150,750.	74,214.
e Other				
Total. Add lines 1a through 1e *(Column (d) must equal Form 990, Part X, column (B), line 10(c).)* ►				74,214.

Part VII Investments – Other Securities. See Form 990, Part X, line 12. N/A

(a) Description of security or category (including name of security)	(b) Book value	(c) Method of valuation: Cost or end-of-year market value
(1) Financial derivatives		
(2) Closely-held equity interests		
(3) Other		
(A)		
(B)		
(C)		
(D)		
(E)		
(F)		
(G)		
(H)		
(I)		
Total. *(Column (b) must equal Form 990 Part X, column (B) line 12.)* ►		

Part VIII Investments – Program Related. See Form 990, Part X, line 13. N/A

(a) Description of investment type	(b) Book value	(c) Method of valuation Cost or end-of-year market value
(1)		
(2)		
(3)		
(4)		
(5)		
(6)		
(7)		
(8)		
(9)		
(10)		
Total. *(Column (b) must equal Form 990, Part X, column (B) line 13.)* ►		

Part IX Other Assets. See Form 990, Part X, line 15.

(a) Description	(b) Book value
(1) COLONIAL REGIONAL ALLIANCE INVEST	241,457.
(2) EXECUTIVE BENEFITS	1,782,119.
(3) INVESTMENT- VRE	86,250.
(4) MEDICAL CIRCLE INVESTMENT	714,336.
(5) MRI JOINT VENTURE	837,955.
(6) OTHER RECEIVABLES	1,585,633.
(7) VA SOLUTIONS INVESTMENT	5,166,963.
(8) WINCHESTER ENDOSCOPY, LLC INVESTMENT	375,302.
(9)	
(10)	
Total. *(Column (b) must equal Form 990, Part X, column (B), line 15.)* ►	10,790,015.

Part X Other Liabilities. See Form 990, Part X, line 25.

(a) Description of liability	(b) Book value
(1) Federal income taxes	
(2) EXEC DEF COMP LIABILITY	1,035,622.
(3)	
(4)	
(5)	
(6)	
(7)	
(8)	
(9)	
(10)	
(11)	
Total. *(Column (b) must equal Form 990, Part X, column (B) line 25.)* ►	1,035,622.

2 FIN 48 (ASC 740) Footnote In Part XIV, provide the text of the footnote to the organization's financial statements that reports the organization's liability for uncertain tax positions under FIN 48 (ASC 740)

Part XI Reconciliation of Change in Net Assets from Form 990 to Audited Financial Statements N/A

1	Total revenue (Form 990, Part VIII, column (A), line 12)	
2	Total expenses (Form 990, Part IX, column (A), line 25)	
3	Excess or (deficit) for the year Subtract line 2 from line 1	
4	Net unrealized gains (losses) on investments	
5	Donated services and use of facilities	
6	Investment expenses	
7	Prior period adjustments	
8	Other (Describe in Part XIV.)	
9	Total adjustments (net) Add lines 4 through 8	
10	Excess or (deficit) for the year per audited financial statements Combine lines 3 and 9	

Part XII Reconciliation of Revenue per Audited Financial Statements With Revenue per Return N/A

1	Total revenue, gains, and other support per audited financial statements		1	
2	Amounts included on line 1 but not on Form 990, Part VIII, line 12			
a	Net unrealized gains on investments	2a		
b	Donated services and use of facilities	2b		
c	Recoveries of prior year grants	2c		
d	Other (Describe in Part XIV)	2d		
e	Add lines **2a** through **2d**		2e	
3	Subtract line **2e** from line **1**		3	
4	Amounts included on Form 990, Part VIII, line 12, but not on line **1**:			
a	Investment expenses not included on Form 990, Part VIII, line 7b	4a		
b	Other (Describe in Part XIV)	4b		
c	Add lines **4a** and **4b**		4c	
5	Total revenue. Add lines **3** and **4c.** *(This must equal Form 990, Part I, line 12.)*		5	

Part XIII Reconciliation of Expenses per Audited Financial Statements With Expenses per Return N/A

1	Total expenses and losses per audited financial statements		1	
2	Amounts included on line 1 but not on Form 990, Part IX, line 25			
a	Donated services and use of facilities	2a		
b	Prior year adjustments	2b		
c	Other losses	2c		
d	Other (Describe in Part XIV)	2d		
e	Add lines **2a** through **2d**		2e	
3	Subtract line **2e** from line **1**		3	
4	Amounts included on Form 990, Part IX, line 25, but not on line **1:**			
a	Investment expenses not included on Form 990, Part VIII, line 7b	4a		
b	Other (Describe in Part XIV)	4b		
c	Add lines **4a** and **4b**		4c	
5	Total expenses. Add lines **3** and **4c.** *(This must equal Form 990, Part I, line 18)*		5	

Part XIV Supplemental Information

Complete this part to provide the descriptions required for Part II, lines 3, 5, and 9, Part III, lines 1a and 4, Part IV, lines 1b and 2b, Part V, line 4; Part X, line 2, Part XI, line 8, Part XII, lines 2d and 4b, and Part XIII, lines 2d and 4b Also complete this part to provide any additional information

Part XIV Supplemental Information *(continued)*

SCHEDULE I (Form 990)

Department of the Treasury
Internal Revenue Service

Grants and Other Assistance to Organizations, Governments, and Individuals in the United States

Complete if the organization answered 'Yes' to Form 990, Part IV, lines 21 or 22.
► **Attatch to Form 990.**

OMB No 1545-0047

2011

Open to Public Inspection

Name of the organization

VALLEY HEALTH SYSTEM

Employer identification number

52-1357729

Part I General Information on Grants and Assistance

1 Does the organization maintain records to substantiate the amount of the grants or assistance, the grantees' eligibility for the grants or assistance, and the selection criteria used to award the grants or assistance? [X] Yes [ ] No

2 Describe in Part IV the organization's procedures for monitoring the use of grant funds in the United States. See Part IV

Part II Grants and Other Assistance to Governments and Organizations in the United States.

Complete if the organization answered 'Yes' to Form 990, Part IV, line 21 for any recipient that received more than $5,000. Check this box if no one recipient received more than $5,000. Part II can be duplicated if additional space is needed ► [ ]

1 (a) Name and address of organization or government	(b) EIN	(c) IRC section if applicable	(d) Amount of cash grant	(e) Amount of non-cash assistance	(f) Method of valuation (book, FMV, appraisal, other)	(g) Description of non-cash assistance	(h) Purpose of grant or assistance
(1) GOOD SAMARITAN FREE CLINIC 121 QUEEN STREET MARTINSBURG, WV 25402	05-0602031	501 (c) (3)	26,250.	0.			CHARITY CARE
(2) OUR HEALTH 329 N CAMERON STREET WINCHESTER, VA 22601	54-1972659	501 (c) (3)	212,772.	0.			COVER OUR HEALTH EXPENSES
(3) SHENANDOAH AREA AGENCY 207 MOSBY LANE FRONT ROYAL, VA 22630	54-1008875	501 (c) (3)	10,000.	0.			WELL TRAN SERVICE SUPPORT
(4) ST LUKE COMMUNITY CLINIC 316 N ROYAL AVENUE FRONT ROYAL, VA 22630	54-1801220	501 (c) (3)	50,000.	0.			CHARITY CARE
(5)							
(6)							
(7)							
(8)							

2 Enter total number of section 501(c)(3) and government organizations listed in the line 1 table ► 4

3 Enter total number of other organizations listed in the line 1 table ► 0

Part III **Grants and Other Assistance to Individuals in the United States.** Complete if the organization answered 'Yes' to Form 990, Part IV, line 22. Part III can be duplicated if additional space is needed.

	(a) Type of grant or assistance	(b) Number of recipients	(c) Amount of cash grant	(d) Amount of non-cash assistance	(e) Method of valuation (book, FMV, appraisal, other)	(f) Description of non-cash assistance
1						
2						
3						
4						
5						
6						
7						

Part IV **Supplemental Information.** Complete this part to provide the information required in Part I, line 2, and any other additional information.

Part I, Line 2 - Procedures for Monitoring Use of Grants Funds in U.S.

VIRTUALLY ALL OF THE ORGANIZATIONS PROVIDED WITH GRANT FUNDS ARE LOCAL, AND CLOSELY MONITORED BY VALLEY HEALTH'S MANAGEMENT AND BOARD. PERIODIC REPORTS ARE OBTAINED AS WELL FROM THESE GRANTEES WHICH DISCUSS OPERATIONS AND BENEFITS RENDERED TO THE COMMUNITIES SERVED. BEFORE FUNDING IS GRANTED, CONSISTENCY OF MISSION IS EVALUATED IN ORDER TO ASSURE LIKE DIRECTION WITH VALLEY HEALTH INITIATIVES.

SCHEDULE J (Form 990)

Department of the Treasury
Internal Revenue Service

Compensation Information

For certain Officers, Directors, Trustees, Key Employees, and Highest Compensated Employees

► **Complete if the organization answered 'Yes' to Form 990, Part IV, line 23.**
► **Attach to Form 990.** ► **See separate instructions.**

OMB No 1545-0047

2011

Open to Public Inspection

Name of the organization
VALLEY HEALTH SYSTEM

Employer identification number
52-1357729

Part I Questions Regarding Compensation

		Yes	No
1a Check the appropriate box(es) if the organization provided any of the following to or for a person listed in Form 990, Part VII, Section A, line 1a. Complete Part III to provide any relevant information regarding these items			
☐ First-class or charter travel			
☐ Travel for companions			
☒ Tax indemnification and gross-up payments			
☒ Discretionary spending account			
☒ Housing allowance or residence for personal use			
☐ Payments for business use of personal residence			
☐ Health or social club dues or initiation fees			
☐ Personal services (e g , maid, chauffeur, chef)			
b If any of the boxes on line 1a are checked, did the organization follow a written policy regarding payment or reimbursement or provision of all of the expenses described above? If 'No,' complete Part III to explain	1b	X	
2 Did the organization require substantiation prior to reimbursing or allowing expenses incurred by all officers, directors, trustees, and the CEO/Executive Director, regarding the items checked in line 1a?	2	X	
3 Indicate which, if any, of the following the filing organization used to establish the compensation of the organization's CEO/Executive Director Check all that apply Do not check any boxes for methods used by a related organization to establish compensation of the CEO/Executive Director Explain in Part III.			
☒ Compensation committee			
☒ Independent compensation consultant			
☐ Form 990 of other organizations			
☒ Written employment contract			
☒ Compensation survey or study			
☒ Approval by the board or compensation committee			
4 During the year, did any person listed in Form 990, Part VII, Section A, line 1a with respect to the filing organization or a related organization			
a Receive a severance payment or change-of-control payment?	4a		X
b Participate in, or receive payment from, a supplemental nonqualified retirement plan?	4b		X
c Participate in, or receive payment from, an equity-based compensation arrangement?	4c		X
If 'Yes' to any of lines 4a-c, list the persons and provide the applicable amounts for each item in Part III			
Only section 501(c)(3) and 501(c)(4) organizations must complete lines 5-9.			
5 For persons listed in Form 990, Part VII, Section A, line 1a, did the organization pay or accrue any compensation contingent on the revenues of.			
a The organization?	5a	X	
b Any related organization?	5b	X	
If 'Yes' to line 5a or 5b, describe in Part III. Part III			
6 For persons listed in Form 990, Part VII, Section A, line 1a, did the organization pay or accrue any compensation contingent on the net earnings of			
a The organization?	6a	X	
b Any related organization?	6b	X	
If 'Yes' to line 6a or 6b, describe in Part III. Part III			
7 For persons listed in Form 990, Part VII, Section A, line 1a, did the organization provide any non-fixed payments not described in lines 5 and 6? If 'Yes,' describe in Part III	7		X
8 Were any amounts reported in Form 990, Part VII, paid or accrued pursuant to a contract that was subject to the initial contract exception described in Regulations section 53.4958-4(a)(3)? If 'Yes,' describe in Part III	8		X
9 If 'Yes' to line 8, did the organization also follow the rebuttable presumption procedure described in Regulations section 53.4958-6(c)?	9		

Part II Officers, Directors, Trustees, Key Employees, and Highest Compensated Employees. Use duplicate copies if additional space is needed.

For each individual whose compensation must be reported in Schedule J, report compensation from the organization on row (i) and from related organizations, described in the instructions on row (ii) Do not list any individuals that are not listed on Form 990, Part VII

Note. The sum of columns (B)(i)-(iii) for each listed individual must equal the total amount of Form 990, Part VII, Section A, line 1a, applicable columns (D) and (E) amounts for that individual

	(A) Name		(B) Breakdown of W-2 and/or 1099-MISC compensation			(C) Retirement and other deferred compensation	(D) Nontaxable benefits	(E) Total of columns (B)(i)-(D)	(F) Compensation reported as deferred in prior Form 990
			(i) Base compensation	(ii) Bonus and incentive compensation	(iii) Other reportable compensation				
	MARK H. MERRILL	(i)	594,764.	105,000.	23,673.	124,961.	44,677.	893,075.	0.
1		(ii)	0.	0.	0.	0.	0.	0.	0.
	PATRICK D.	(i)	0.	0.	0.	0.	0.	0.	0.
2	IRELAND, MD	(ii)	0.	0.	265,598.	0.	0.	265,598.	0.
	J CRAIG LEWIS	(i)	347,244.	59,893.	4,789.	51,336.	35,674.	498,936.	0.
3		(ii)	0.	0.	0.	0.	0.	0.	0.
	ALFRED E PILONG,	(i)	0.	0.	0.	0.	0.	0.	0.
4	JR	(ii)	365,773.	60,360.	7,931.	54,054.	36,371.	524,489.	0.
	NEIL MCLAUGHLIN	(i)	0.	0.	0.	0.	0.	0.	0.
5		(ii)	142,120.	20,177.	5,447.	12,651.	20,738.	201,133.	0.
	JOAN ROSCOE	(i)	224,309.	27,302.	5,356.	25,286.	19,113.	301,366.	0.
6		(ii)	0.	0.	0.	0.	0.	0.	0.
	WES WILLIAMS	(i)	176,330.	18,329.	3,011.	16,854.	24,326.	238,850.	0.
7		(ii)	0.	0.	0.	0.	0.	0.	0.
	MARVIN T WAY	(i)	322,127.	55,561.	4,578.	47,624.	29,540.	459,430.	0.
8		(ii)	0.	0.	0.	0.	0.	0.	0.
	ELIZABETH	(i)	211,702.	25,418.	763.	20,001.	28,948.	286,832.	0.
9	SAVAGE-TRACY	(ii)	0.	0.	0.	0.	0.	0.	0.
	ROBERT AMOS	(i)	193,455.	26,694.	263.	0.	28,836.	249,248.	0.
10		(ii)	0.	0.	0.	0.	0.	0.	0.
	DAVID JAMES HUBER,	(i)	338,945.	0.	39,969.	0.	14,636.	393,550.	0.
11	MD	(ii)	0.	0.	0.	0.	0.	0.	0.
	NELSON T CLARK	(i)	0.	0.	0.	0.	0.	0.	0.
12		(ii)	150,302.	20,704.	10,227.	14,529.	13,404.	209,166.	0.
	FLOYD R. HEATER	(i)	0.	0.	0.	0.	0.	0.	0.
13		(ii)	209,444.	30,963.	1,244.	20,642.	29,642.	291,935.	0.
	PATRICK B. NOLAN	(i)	0.	0.	0.	0.	0.	0.	0.
14		(ii)	176,335.	25,453.	5,121.	17,622.	27,852.	252,383.	0.
	DENA KENT	(i)	0.	0.	0.	0.	0.	0.	0.
15		(ii)	194,713.	26,866.	4,307.	19,189.	28,909.	273,984.	0.
	TONYA SMITH	(i)	0.	0.	0.	0.	0.	0.	0.
16		(ii)	193,928.	26,758.	287.	19,113.	28,864.	268,950.	0.

Part III Supplemental Information

Complete this part to provide the information, explanation, or descriptions required for Part I, lines 1a, 1b, 3, 4a, 4b, 4c, 5a, 5b, 6a, 6b, 7, and 8, for Part II. Also complete this part for any additional information.

Part I, Line 5 - Compensation Contingent On Revenues Or Related Organization

A portion of management's bonuses are based on the financial results of any given year with a residual on quality, patient satisfaction, patient safety, and project completion.

Part I, Line 6 - Compensation Contingent On Net Earnings Or Related Organization

A portion of management's bonuses are based on the financial results of any given year with a residual on quality, patient satisfaction, patient safety, and project completion.

Continuation Sheet for Schedule J (Form 990)

2011

Name of the organization

VALLEY HEALTH SYSTEM

Employer identification number

52-1357729

Part II Continuation of Officers, Directors, Trustees, Key Employees, and Highest Compensated Employees (Schedule J, Part II)

(A) Name		(B) Breakdown of W-2 and/or 1099-MISC compensation			(C) Retirement and other deferred compensation	(D) Nontaxable benefits	(E) Total of columns (B)(i)–(D)	(F) Compensation reported in prior Form 990 or Form 990-EZ
		(i) Base compensation	(ii) Bonus & incentive compensation	(iii) Other reportable compensation				
ANDREW COHEN	(i)	0.	0.	0.	0.	0.	0.	0.
	(ii)	223,224.	22,688.	24,635.	22,000.	11,024.	303,571.	0.
FRANCIS X DENNEHY	(i)	228,224.	1,000.	499.	0.	30,664.	260,387.	0.
	(ii)	0.	0.	0.	0.	0.	0.	0.
NEAL MCKNIGHT	(i)	192,172.	1,000.	255.	0.	17,156.	210,583.	0.
	(ii)	0.	0.	0.	0.	0.	0.	0.
RICHARD BRUCE CARLSON	(i)	185,269.	1,000.	15,191.	0.	25,888.	227,348.	0.
	(ii)	0.	0.	0.	0.	0.	0.	0.
CHRISTOPHER GOODITIS	(i)	181,338.	2,000.	157.	0.	28,051.	211,546.	0.
	(ii)	0.	0.	0.	0.	0.	0.	0.
BRET D. RIPLEY	(i)	200,657.	500.	416.	0.	16,824.	218,397.	0.
	(ii)	0.	0.	0.	0.	0.	0.	0.
ADRIENNE MCKENNA	(i)	78,649.	0.	3,641.	0.	14,035.	96,325.	0.
	(ii)	0.	0.	0.	0.	0.	0.	0.
	(i)							
	(ii)							
	(i)							
	(ii)							
	(i)							
	(ii)							
	(i)							
	(ii)							
	(i)							
	(ii)							
	(i)							
	(ii)							
	(i)							
	(ii)							
	(i)							
	(ii)							

SCHEDULE K (Form 990)

Department of the Treasury
Internal Revenue Service

Supplemental Information on Tax Exempt Bonds

► Complete if the organization answered 'Yes' to Form 990, Part IV, line 24a. Provide descriptions, explanations, and any additional information in Part VI.
► Attach to Form 990. ► See separate instructions.

OMB No 1545-0047

2011

Open to Public Inspection

Name of the organization

VALLEY HEALTH SYSTEM

Employer identification number

52-1357729

Part I Bond Issues

	(a) Issuer Name	(b) Issuer EIN	(c) CUSIP #	(d) Date issued	(e) Issue price	(f) Description of purpose	(g) Defeased		(h) On behalf of issuer		(i) Pooled financing	
							Yes	No	Yes	No	Yes	No
A	IDA OF CITY OF WINCHESTER,	52-1232253	973129DW6	1/31/2007	91,415,663.	SEE STATEMENT		X		X		
B	IDA OF CITY OF WINCHESTER,	52-1232253	973129EQ8	12/17/2009	74,256,930.	SEE STATEMENT		X		X		
C	WEST VIRGINIA HOSPITAL FIN		956622c28	12/17/2009	24,811,955.	SEE STATEMENT		X		X		
D												

Part II Proceeds

		A	B	C	D
1	Amount of bonds retired				
2	Amount of bonds legally defeased				
3	Total proceeds of issue	91,415,663.	74,256,930.	24,811,955.	
4	Gross proceeds in reserve funds				
5	Capitalized interest from proceeds				
6	Proceeds in refunding escrows	14,508,990.			
7	Issuance costs from proceeds	3,128,218.	1,301,587.	469,612.	
8	Credit enhancement from proceeds				
9	Working capital expenditures from proceeds				
10	Capital expenditures from proceeds	73,778,455.	48,143,389.	24,342,343.	
11	Other spent proceeds				
12	Other unspent proceeds		24,811,955.		
13	Year of substantial completion	2008	2012	2011	

		A		B		C		D	
		Yes	No	Yes	No	Yes	No	Yes	No
14	Were the bonds issued as part of a current refunding issue?		X		X		X		
15	Were the bonds issued as part of an advance refunding issue?	X			X		X		
16	Has the final allocation of proceeds been made?	X			X		X		
17	Does the organization maintain adequate books and records to support the final allocation of proceeds?	X		X		X			

Part III Private Business Use

		A		B		C		D	
		Yes	No	Yes	No	Yes	No	Yes	No
1	Was the organization a partner in a partnership, or a member of an LLC, which owned property financed by tax-exempt bonds?		X		X		X		
2	Are there any lease arrangements that may result in private business use of bond-financed property?		X		X		X		

Part III Private Business Use *(Continued)*

	A		B		C		D	
	Yes	No	Yes	No	Yes	No	Yes	No
3a Are there any management or service contracts that may result in private business use of bond-financed property?		X		X		X		
b If 'Yes' to line 3a, does the organization routinely engage bond counsel or other outside counsel to review any management or service contracts relating to the financed property?								
c Are there any research agreements that may result in private business use of bond-financed property?		X		X		X		
d If 'Yes' to line 3c, does the organization routinely engage bond counsel or other outside counsel to review any research agreements relating to the financed property?	X		X		X			
4 Enter the percentage of financed property used in a private business use by entities other than a section 501(c)(3) organization or a state or local government ▶	%		%		%		%	
5 Enter the percentage of financed property used in a private business use as a result of unrelated trade or business activity carried on by your organization, another section 501(c)(3) organization, or a state or local government ▶	%		%		%		%	
6 Total of lines 4 and 5	%		%		%		%	
7 Has the organization adopted management practices and procedures to ensure the post-issuance compliance of its tax-exempt bond liabilities?	X		X		X			

Part IV Arbitrage

	A		B		C		D	
	Yes	No	Yes	No	Yes	No	Yes	No
1 Has a Form 8038-T, Arbitrage Rebate, Yield Reduction and Penalty in Lieu of Arbitrage Rebate, been filed with respect to the bond issue?		X	X		X			
2 Is the bond issue a variable rate issue?	X			X		X		
3a Has the organization or the governmental issuer entered into a qualified hedge with respect to the bond issue?	X		X		X			
b Name of provider	MERRILL LYNCH		WELLS FARGO		WELLS FARGO			
c Term of hedge	33.0		33.0		33.0			
d Was the hedge superintegrated?		X		X		X		
e Was the hedge terminated?		X		X		X		
4a Were gross proceeds invested in a guaranteed investment contract (GIC)?		X		X		X		
b Name of provider	N/A		N/A		N/A			
c Term of GIC								
d Was the regulatory safe harbor for establishing the fair market value of the GIC satisfied?	X		X		X			
5 Were any gross proceeds invested beyond an available temporary period?		X		X		X		
6 Did the bond issue qualify for an exception to rebate?		X		X		X		

Part V Procedures To Undertake Corrective Action

Has the organization established written procedures to ensure that violations of federal tax requirements are timely identified and corrected through the voluntary closing agreement program if self-remediation is not available under applicable regulations? [X] Yes [ ] No

Part VI Supplemental Information. Complete this part to provide additional information for responses to questions on Schedule K (see instructions).

Additional Information

PART I LINE A Funds used to refinance 2003 of Warren Memorial Hospital and Shenandoah Memorial Hospital; purchase of equipment;construction of ambulatory care center at Warren;renovations and upgrades at Warren, Shenandoah, and

Part III Private Business Use *(Continued)*

	A		B		C		D	
	Yes	No	Yes	No	Yes	No	Yes	No
3a Are there any management or service contracts that may result in private business use of bond-financed property?								
b If 'Yes' to line 3a, does the organization routinely engage bond counsel or other outside counsel to review any management or service contracts relating to the financed property?								
c Are there any research agreements that may result in private business use of bond-financed property?								
d If 'Yes' to line 3c, does the organization routinely engage bond counsel or other outside counsel to review any research agreements relating to the financed property?								
4 Enter the percentage of financed property used in a private business use by entities other than a section 501(c)(3) organization or a state or local government ►	%		%		%		%	
5 Enter the percentage of financed property used in a private business use as a result of unrelated trade or business activity carried on by your organization, another section 501(c)(3) organization, or a state or local government ►	%		%		%		%	
6 Total of lines 4 and 5	%		%		%		%	
7 Has the organization adopted management practices and procedures to ensure the post-issuance compliance of its tax-exempt bond liabilities?								

Part IV Arbitrage

	A		B		C		D	
	Yes	No	Yes	No	Yes	No	Yes	No
1 Has a Form 8038-T, Arbitrage Rebate, Yield Reduction and Penalty in Lieu of Arbitrage Rebate, been filed with respect to the bond issue?								
2 Is the bond issue a variable rate issue?								
3a Has the organization or the governmental issuer entered into a qualified hedge with respect to the bond issue?								
b Name of provider								
c Term of hedge								
d Was the hedge superintegrated?								
e Was the hedge terminated?								
4a Were gross proceeds invested in a guaranteed investment contract (GIC)?								
b Name of provider								
c Term of GIC								
d Was the regulatory safe harbor for establishing the fair market value of the GIC satisfied?								
5 Were any gross proceeds invested beyond an available temporary period?								
6 Did the bond issue qualify for an exception to rebate?								

Part V Procedures To Undertake Corrective Action

Has the organization established written procedures to ensure that violations of federal tax requirements are timely identified and corrected through the voluntary closing agreement program if self-remediation is not available under applicable regulations? ☐ Yes ☐ No

Part VI Supplemental Information. Complete this part to provide additional information for responses to questions on Schedule K (see instructions).

Additional Information (continued)

Winchester Medical Center.

Part III Private Business Use *(Continued)*

	A		B		C		D	
	Yes	No	Yes	No	Yes	No	Yes	No
3a Are there any management or service contracts that may result in private business use of bond-financed property?								
b If 'Yes' to line 3a, does the organization routinely engage bond counsel or other outside counsel to review any management or service contracts relating to the financed property?								
c Are there any research agreements that may result in private business use of bond-financed property?								
d If 'Yes' to line 3c, does the organization routinely engage bond counsel or other outside counsel to review any research agreements relating to the financed property?								
4 Enter the percentage of financed property used in a private business use by entities other than a section 501(c)(3) organization or a state or local government ►	%		%		%		%	
5 Enter the percentage of financed property used in a private business use as a result of unrelated trade or business activity carried on by your organization, another section 501(c)(3) organization, or a state or local government ►	%		%		%		%	
6 Total of lines 4 and 5	%		%		%		%	
7 Has the organization adopted management practices and procedures to ensure the post-issuance compliance of its tax-exempt bond liabilities?								

Part IV Arbitrage

	A		B		C		D	
	Yes	No	Yes	No	Yes	No	Yes	No
1 Has a Form 8038-T, Arbitrage Rebate, Yield Reduction and Penalty in Lieu of Arbitrage Rebate, been filed with respect to the bond issue?								
2 Is the bond issue a variable rate issue?								
3a Has the organization or the governmental issuer entered into a qualified hedge with respect to the bond issue?								
b Name of provider								
c Term of hedge								
d Was the hedge superintegrated?								
e Was the hedge terminated?								
4a Were gross proceeds invested in a guaranteed investment contract (GIC)?								
b Name of provider								
c Term of GIC								
d Was the regulatory safe harbor for establishing the fair market value of the GIC satisfied?								
5 Were any gross proceeds invested beyond an available temporary period?								
6 Did the bond issue qualify for an exception to rebate?								

Part V Procedures To Undertake Corrective Action

Has the organization established written procedures to ensure that violations of federal tax requirements are timely identified and corrected through the voluntary closing agreement program if self-remediation is not available under applicable regulations? ☐ Yes ☐ No

Part VI Supplemental Information. Complete this part to provide additional information for responses to questions on Schedule K (see instructions).

Additional Information (continued)

PART I LINE B Funds used for WMC Campus expansion, East Parking Garage and reimbursement for Diagnostic Center and CE infrastructure.

Part III Private Business Use *(Continued)*

	A		B		C		D	
	Yes	No	Yes	No	Yes	No	Yes	No
3a Are there any management or service contracts that may result in private business use of bond-financed property?								
b If 'Yes' to line 3a, does the organization routinely engage bond counsel or other outside counsel to review any management or service contracts relating to the financed property?								
c Are there any research agreements that may result in private business use of bond-financed property?								
d If 'Yes' to line 3c, does the organization routinely engage bond counsel or other outside counsel to review any research agreements relating to the financed property?								
4 Enter the percentage of financed property used in a private business use by entities other than a section 501(c)(3) organization or a state or local government ►	%		%		%		%	
5 Enter the percentage of financed property used in a private business use as a result of unrelated trade or business activity carried on by your organization, another section 501(c)(3) organization, or a state or local government. ►	%		%		%		%	
6 Total of lines 4 and 5	%		%		%		%	
7 Has the organization adopted management practices and procedures to ensure the post-issuance compliance of its tax-exempt bond liabilities?								

Part IV Arbitrage

	A		B		C		D	
	Yes	No	Yes	No	Yes	No	Yes	No
1 Has a Form 8038-T, Arbitrage Rebate, Yield Reduction and Penalty in Lieu of Arbitrage Rebate, been filed with respect to the bond issue?								
2 Is the bond issue a variable rate issue?								
3a Has the organization or the governmental issuer entered into a qualified hedge with respect to the bond issue?								
b Name of provider								
c Term of hedge								
d Was the hedge superintegrated?								
e Was the hedge terminated?								
4a Were gross proceeds invested in a guaranteed investment contract (GIC)?								
b Name of provider								
c Term of GIC								
d Was the regulatory safe harbor for establishing the fair market value of the GIC satisfied?								
5 Were any gross proceeds invested beyond an available temporary period?								
6 Did the bond issue qualify for an exception to rebate?								

Part V Procedures To Undertake Corrective Action

Has the organization established written procedures to ensure that violations of federal tax requirements are timely identified and corrected through the voluntary closing agreement program if self-remediation is not available under applicable regulations? ☐ Yes ☐ No

Part VI Supplemental Information. Complete this part to provide additional information for responses to questions on Schedule K (see instructions).

Additional Information (continued)

PART I LINE C Funds used to build new Hampshire Memorial Hospital.

SCHEDULE L
(Form 990 or 990-EZ)

Department of the Treasury
Internal Revenue Service

Transactions With Interested Persons

► **Complete if the organization answered 'Yes' on Form 990, Part IV, line 25a, 25b, 26, 27, 28a, 28b, or 28c, or Form 990-EZ, Part V, line 38a or 40b.**
► **Attach to Form 990 or Form 990-EZ.** ► **See separate instructions.**

OMB No 1545-0047

2011

Open to Public Inspection

Name of the organization
VALLEY HEALTH SYSTEM

Employer identification number
52-1357729

Part I Excess Benefit Transactions (section 501(c)(3) and section 501(c)(4) organizations only).

Complete if the organization answered 'Yes' on Form 990, Part IV, line 25a or 25b, or Form 990-EZ, Part V, line 40b.

1	(a) Name of disqualified person	(b) Description of transaction	(c) Corrected? Yes	(c) Corrected? No
(1)				
(2)				
(3)				
(4)				
(5)				
(6)				

2 Enter the amount of tax imposed on the organization managers or disqualified persons during the year under section 4958 ► $

3 Enter the amount of tax, if any, on line 2, above, reimbursed by the organization ► $

Part II Loans to and/or From Interested Persons.

Complete if the organization answered 'Yes' on Form 990, Part IV, line 26 or Form 990-EZ, Part V, line 38a.

(a) Name of interested person and purpose	(b) Loan to or from the organization? To	(b) Loan to or from the organization? From	(c) Original principal amount	(d) Balance due	(e) In default? Yes	(e) In default? No	(f) Approved by board or committee? Yes	(f) Approved by board or committee? No	(g) Written agreement? Yes	(g) Written agreement? No
(1)										
(2)										
(3)										
(4)										
(5)										
(6)										
(7)										
(8)										
(9)										
(10)										
Total			► $							

Part III Grants or Assistance Benefiting Interested Persons.

Complete if the organization answered 'Yes' on Form 990, Part IV, line 27.

(a) Name of interested person	(b) Relationship between interested person and the organization	(c) Amount and type of assistance
(1)		
(2)		
(3)		
(4)		
(5)		
(6)		
(7)		
(8)		
(9)		
(10)		

Part IV Business Transactions Involving Interested Persons.

Complete if the organization answered 'Yes' on Form 990, Part IV, line 28a, 28b, or 28c.

(a) Name of interested person	(b) Relationship between interested person and the organization	(c) Amount of transaction	(d) Description of transaction	(e) Sharing of organization's revenues? Yes	(e) Sharing of organization's revenues? No
(1) John Kent	See Below	11,165.	Employment Arrangement		X
(2) Virginia Cancer Specialist	See Below	269,869.	Medical Office Lease		X
(3)					
(4)					
(5)					
(6)					
(7)					
(8)					
(9)					
(10)					

Part V Supplemental Information

Complete this part to provide additional information for responses to questions on Schedule L (see instructions).

Supplemental Information

1.John Kent - Family member of Dena Kent, a current Officer

$11,165 Employment arrangement

2.Virginia Cancer Specialists, PC - Professional corporation with more than 5% ownership interests held by William Major, MD, a current Trustee

$269,870 Medical Office Lease

SCHEDULE R (Form 990)

Department of the Treasury
Internal Revenue Service

Related Organizations and Unrelated Partnerships

► Complete if the organization answered 'Yes' to Form 990, Part IV, line 33, 34, 35, 36, or 37.
► Attach to Form 990. ► See separate instructions.

OMB No 1545-0047

2011

Open to Public Inspection

Name of the organization
VALLEY HEALTH SYSTEM

Employer identification number
52-1357729

Part I Identification of Disregarded Entities (Complete if the organization answered 'Yes' to Form 990, Part IV, line 33.)

(a) Name, address, and EIN of disregarded entity	(b) Primary activity	(c) Legal domicile (state or foreign country)	(d) Total income	(e) End-of-year assets	(f) Direct controlling entity
(1) EAST MOUNTAIN HEALTH LLC 1000 HERITAGE CIRCLE ROMNEY, WV 26757 26-2586527	WELLNESS CENTER	WV	387,214.	85,022.	VALLEY HEALTH SYSTEM
(2)					
(3)					

Part II Identification of Related Tax-Exempt Organizations (Complete if the organization answered 'Yes' to Form 990, Part IV, line 34 because it had one or more related tax-exempt organizations during the tax year.)

(a) Name, address, and EIN of related organization	(b) Primary activity	(c) Legal domicile (state or foreign country)	(d) Exempt Code section	(e) Public charity status (if section 501(c)(3))	(f) Direct controlling entity	(g) Sec 512(b)(13) controlled entity? Yes	(g) Sec 512(b)(13) controlled entity? No
(1) SHENANDOAH MEMORIAL HOSPITAL 759 SOUTH MAIN STREET WOODSTOCK, VA 22664 54-0490687	HOSPITAL	VA	501(c)(3)	3	VALLEY HEALTH SYSTEM		X
(2) SURGI CENTER OF WINCHESTER, INC. 1860 AMHERST STREET WINCHESTER, VA 22601 54-1279131	ASC	VA	501(c)(3)	3	VALLEY HEALTH SYSTEM		X
(3) WARREN MEMORIAL HOSPITAL 1000 SHENANDOAH DRIVE FRONT ROYAL, VA 22630 54-0488103	HOSPITAL	VA	501(c)(3)	3	VALLEY HEALTH SYSTEM		X
(4) WINCHESTER MEDICAL CENTER 220 CAMPUS BLVD WINCHESTER, VA 22601 54-0505979	HOSPITAL	VA	501(c)(3)	3	VALLEY HEALTH SYSTEM		X

Part III **Identification of Related Organizations Taxable as a Partnership** (Complete if the organization answered 'Yes' to Form 990, Part IV, line 34 because it had one or more related organizations treated as a partnership during the tax year.)

(a) Name, address, and EIN of related organization	(b) Primary activity	(c) Legal domicile (state or foreign country)	(d) Direct controlling entity	(e) Predominant income (related, unrelated, excluded from tax under sections 512-514)	(f) Share of total income	(g) Share of end-of-year assets	(h) Disproportionate allocations? Yes	(h) No	(i) Code V-UBI amount in box 20 of Schedule K-1 (Form 1065)	(j) General or managing partner? Yes	(j) No	(k) Percentage ownership
See Part VII												
(1) WINCHESTER OPEN 160 EXETER DRIVE WINCHESTER, VA 2 54-2041643	MRI SERVICE	VA	N/A		2,875,669.	661,407.		X	N/A		X	50.00
(2) WINCHESTER ENDOS 190 CAMPUS BLVD, WINCHESTER, VA 2 26-3886651	Endoscopy Services	VA	N/A		-74,382.	401,649.		X	N/A		X	51.00
(3) MEDICAL CIRCLE L 125-A MEDICAL CI WINCHESTER, VA 2 20-3390908	MRI SERVICES	VA	N/A		734,300.	714,336.		X	N/A		X	51.00

Part IV **Identification of Related Organizations Taxable as a Corporation or Trust** (Complete if the organization answered 'Yes' to Form 990, Part IV, line 34 because it had one or more related organizations treated as a corporation or trust during the tax year.)

(a) Name, address, and EIN of related organization	(b) Primary activity	(c) Legal domicile (state or foreign country)	(d) Direct controlling entity	(e) Type of entity (C corp, S corp, or trust)	(f) Share of total income	(g) Share of end-of-year assets	(h) Percentage ownership
(1) VALLEY REGIONAL ENTERPRISES, INC. 220 CAMPUS BLVD, STE 420 WINCHESTER, VA 22601 54-1456064	MED EQUIP/AMBU LANCE	VA	N/A	C CORP	49,311,984.	11,069,736.	100.00
(2)							
(3)							

Part V Transactions With Related Organizations (Complete if the organization answered 'Yes' to Form 990, Part IV, line 34, 35, 35a, or 36.)

			Yes	No
	Note. Complete line 1 if any entity is listed in Parts II, III, or IV of this schedule			
1	During the tax year did the organization engage in any of the following transactions with one or more related organizations listed in Parts II-IV?			
a	Receipt of **(i)** interest **(ii)** annuities **(iii)** royalties or **(iv)** rent from a controlled entity	1a		X
b	Gift, grant, or capital contribution to related organization(s)	1b		X
c	Gift, grant, or capital contribution from related organization(s)	1c		X
d	Loans or loan guarantees to or for related organization(s)	1d		X
e	Loans or loan guarantees by related organization(s)	1e		X
f	Sale of assets to related organization(s)	1f		X
g	Purchase of assets from related organization(s)	1g		X
h	Exchange of assets with related organization(s)	1h		X
i	Lease of facilities, equipment, or other assets to related organization(s)	1i		X
j	Lease of facilities, equipment, or other assets from related organization(s)	1j		X
k	Performance of services or membership or fundraising solicitations for related organization(s)	1k		X
l	Performance of services or membership or fundraising solicitations by related organization(s)	1l		X
m	Sharing of facilities, equipment, mailing lists, or other assets with related organization(s)	1m		X
n	Sharing of paid employees with related organization(s)	1n		X
o	Reimbursement paid to related organization(s) for expenses	1o		X
p	Reimbursement paid by related organization(s) for expenses	1p		X
q	Other transfer of cash or property to related organization(s)	1q	X	
r	Other transfer of cash or property from related organization(s)	1r	X	

2 If the answer to any of the above is 'Yes,' see the instructions for information on who must complete this line, including covered relationships and transaction thresholds.

(a) Name of other organization	(b) Transaction type (a-r)	(c) Amount involved	(d) Method of determining amount involved
(1) SHENANDOAH MEMORIAL HOSPITAL	q	7,779,984.	COST
(2) SURGI CENTER OF WINCHESTER, INC.	q	535,857.	COST
(3) WARREN MEMORIAL HOSPITAL	q	5,896,949.	COST
(4) WINCHESTER MEDICAL CENTER	r	62,163,587.	COST
(5) HAMPSHIRE MEMORIAL HOSPITAL, INC	q	13,030,935.	COST
(6) PAGE MEMORIAL HOSPITAL	q	1,763,107.	COST

Part VI Unrelated Organizations Taxable as a Partnership (Complete if the organization answered 'Yes' to Form 990, Part IV, line 37.)

Provide the following information for each entity taxed as a partnership through which the organization conducted more than five percent of its activities (measured by total assets or gross revenue) that was not a related organization See instructions regarding exclusion for certain investment partnerships

(a) Name, address, and EIN of entity	(b) Primary activity	(c) Legal domicile (state or foreign country)	(d) Predominant income (related, unrelated, excluded from tax under section 512-514)	(e) Are all partners section 501(c)(3) organizations? Yes	(e) No	(f) Share of total income	(g) Share of end-of-year assets	(h) Disproportionate allocations? Yes	(h) No	(i) Code V-UBI amount in box 20 of Schedule K-1 Form (1065)	(j) General or managing partner? Yes	(j) No	(k) Percentage ownership
(1)													
(2)													
(3)													
(4)													
(5)													
(6)													
(7)													
(8)													

Part VII Supplemental Information

Complete this part to provide additional information for responses to questions on Schedule R (see instructions).

Part III - Partnership Full Name, Address, FEIN

WINCHESTER OPEN MRI, LLC 54-2041643 160 EXETER DRIVE WINCHESTER, VA 22603

WINCHESTER ENDOSCOPY SERVICES, LLC 26-3886651 190 CAMPUS BLVD, STE 150 WINCHESTER, VA 22601

MEDICAL CIRCLE LLC, t/a VALLEY OPEN MRI 20-3390908 125-A MEDICAL CIRCLE WINCHESTER, VA 22601

Part II Continuation of Identification of Related Tax-Exempt Organizations

(A) Name, address, and EIN of related organization	(B) Primary activity	(C) Legal domicile (state or foreign country)	(D) Exempt Code section	(E) Public charity status (if section 501(c)(3))	(F) Direct controlling entity	(G) Sec 512(b)(13) controlled entity? Yes	(G) Sec 512(b)(13) controlled entity? No
HAMPSHIRE MEMORIAL HOSPITAL, INC 549 CENTER AVE ROMNEY, WV 26757 20-8241398	HOSPITAL	WV	501(c)(3)	3	VALLEY HEALTH SYSTEM		X
SHENADOAH MEMORIAL HOSPITAL FOUNDATI 759 S MAIN STREET WOODSTOCK, VA 22664 52-1535978	FUNDRAISING	VA	501 (c)(3)	11a	VALLEY HEALTH SYSTEM		X
WINCHESTER MEDICAL CENTER FOUNDATION 1840 AMHERST STREET WINCHESTER, VA 22601 54-2013319	FUNDRAISING	VA	501(c)(3)	11a	VALLEY HEALTH SYSTEM		X
WARREN MEMORIAL HOSPITAL FOUNDATION 1000 SHENANDOAH DRIVE FRONT ROYAL, VA 22630 54-1601942	FUNDRAISING	VA	501 (c)(3)	11a	VALLEY HEALTH SYSTEM		X
PAGE MEMORIAL HOSPITAL 200 MEMORIAL DRIVE LURAY, VA 22835 54-0551200	HOSPITAL	VA	501 (c)(3)	3	VALLEY HEALTH SYSTEM		X
VALLEY PHYSICIAN ENTERPRISE, INC. 220 CAMPUS BLVD WINCHESTER, VA 22601 26-2767279	PHYSICIAN PRACTICES	VA	501 (c)(3)	3	VALLEY HEALTH SYSTEM		X
WAR MEMORIAL HOSPITAL, INC. 109 WAR MEMORIAL DRIVE BERKELEY SPRINGS, WV 25411 80-0407200	HOSPITAL	WV	501 (c) (3)	3	VALLEY HEALTH SYSTEM		X

Part V Continuation of Transactions With Related Organizations (Schedule R (Form 990), Part V, line 2)

(A) Name of other organization	(B) Transaction type (a-r)	(C) Amount involved	(D) Method of determining amount involved
VALLEY PHYSICIAN ENTERPRISE, INC.	q	4,036,858.	COST
WAR MEMORIAL HOSPITAL, INC.	q	23,061,316.	COST

SCHEDULE O (Form 990 or 990-EZ)	Supplemental Information to Form 990 or 990-EZ	OMB No 1545-0047
Department of the Treasury Internal Revenue Service	Complete to provide information for responses to specific questions on Form 990 or 990-EZ or to provide any additional information. ► Attach to Form 990 or 990-EZ.	2011 Open to Public Inspection

Name of the organization	Employer identification number
VALLEY HEALTH SYSTEM	52-1357729

Form 990, Part VI, Line 6 - Explanation of Classes of Members or Shareholder

The corporation shall have two classes of members: regular and honorary. The number of regular members shall not exceed 100. In addition, there may be an unlimited number of honorary members. Qualifications for both classes of membership shall be established in the Bylaws of the Corporation. Honorary members have no voting or any other rights whatsoever. Regular members shall have voting rights soley with respect to the election of regular members, honorary members and trustees, as established in the Bylaws of the Corporation.

Form 990, Part VI, Line 7a - How Members or Shareholders Elect Governing Body

Members elect the governing body (Board of Trustees). They have no other functions with respect to oversight of the governing body.

Form 990, Part VI, Line 11b - Form 990 Review Process

The 990 is prepared by internal staff and undergoes several levels of review including the CFO and CEO. Further, the board reviews the 990 during one of its recurring monthly meetings where any issues of concern or question are addressed by Senior Management.

Form 990, Part VI, Line 12c - Explanation of Monitoring and Enforcement of Conflicts

All employees that are managers, have purchasing rights with defined limits, or may enter into a contract on behalf of the organization are required to sign a conflict of interest attestation upon employment and annually. All employees can report breaches in VH policy. VH has an employee integrity hotline and a compliance officer. The audit committee is advised of compliance activity on a quarterly basis in addition to monthly follow up by the CEO on any immediate issues. Any infractions can result in disciplinary action or dismissal.

Name of the organization: VALLEY HEALTH SYSTEM

Employer identification number: 52-1357729

Form 990, Part VI, Line 15b - Compensation Review & Approval Process for Officers & Key Employees

The Board of Trustees is responsible for the compensation review. They use compensation literature and outside consultants to determine the appropriate compensation for the CEO,Officers,and Senior Management. As new individuals are hired into management positions, recruiting firms use FMV information to establish salary and general compensation levels.

Form 990, Part VI, Line 19 - Other Organization Documents Publicly Available

The organization makes all records available as required by law.

Form 990, Part XI, Line 5
Other Changes in Net Assets or Fund Balances

Transfers from Affiliates	$ 4,075,169.
Total	$ 4,075,169.

SCHEDULE K

PART I LINE A
Funds used to refinance 2003 of Warren Memorial Hospital and Shenandoah Memorial Hospital;
purchase of equipment; construction of ambulatory care center at Warren; renovations and upgrades at Warren, Shenandoah, and Winchester Medical Center.

PART I LINE B
Funds used for WMC Campus Expansion, East Parking Garage and reimbursement for Diagnostic Center and CE Infrastructure.

PART I LINE C
Funds used to build new Hampshire Hospital.

ValleyHealth

Consolidated Financial Statements and Supplemental Information

December 31, 2011

ARNETT & FOSTER
Certified Public Accountants, P.L.L.C.

CONTENTS

ARNETT & FOSTER
Certified Public Accountants, P L L C

INDEPENDENT AUDITORS' REPORT

To the Board of Trustees
Valley Health System and Subsidiaries
Winchester, Virginia

We have audited the accompanying consolidated balance sheets of Valley Health System and Subsidiaries (Valley Health System) as of December 31, 2011 and 2010, and the related consolidated statements of operations, changes in net assets and cash flows for the years then ended. These financial statements are the responsibility of Valley Health System's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Valley Health System and Subsidiaries as of December 31, 2011 and 2010, and the results of their operations, changes in their net assets and their cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Our audits were made for the purpose of forming an opinion on the basic consolidated financial statements taken as a whole. The consolidating information is presented for purposes of additional analysis of the basic consolidated financial statements rather than to present the financial position and results of operations of the individual companies. The consolidating information has been subjected to the auditing procedures applied in the audits of the basic consolidated financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic consolidated financial statements taken as a whole.

ARNETT & FOSTER, P.L.L.C.
Arnett + Foster, P.L.L.C.

Charleston, West Virginia
March 30, 2012

VALLEY HEALTH SYSTEM AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS
December 31, 2011 and 2010

	2011	2010
ASSETS	(In Thousands)	
Current assets		
Cash and cash equivalents	**$ 48,569**	$ 50,632
Investments	**241,782**	252,014
Assets limited as to use	**13,903**	27,073
Patient accounts receivable, net of estimated uncollectibles of $37,845 in 2011 and $34,088 in 2010	**94,713**	81,097
Third-party settlements	**-**	875
Inventory of supplies	**14,929**	13,932
Other current assets	**11,652**	11,051
Total current assets	**425,548**	436,674
Assets limited as to use, net of amount required to meet current liabilities	**133,779**	200,522
Property and equipment, net	**614,228**	515,228
Other assets		
Deferred financing costs, net	**4,924**	5,176
Goodwill	**4,400**	4,500
Investments	**8,512**	8,316
Total other assets	**17,836**	17,992
Total assets	**$ 1,191,391**	$ 1,170,416
LIABILITIES AND NET ASSETS		
Current liabilities		
Current installments of long-term debt	**$ 10,200**	$ 9,911
Accounts payable and accrued expenses	**51,575**	48,629
Accrued salaries and wages	**21,245**	19,351
Third-party settlements	**1,367**	-
Other current liabilities	**802**	14,984
Total current liabilities	**85,189**	92,875
Long-term debt, excluding current installments	**383,496**	393,171
Accrued pension and postretirement obligations	**94,826**	30,755
Other liabilities	**47,289**	23,589
Total liabilities	**610,800**	540,390
Net assets		
Unrestricted	**563,108**	613,069
Temporarily restricted	**13,083**	12,355
Permanently restricted	**4,400**	4,602
Total net assets	**580,591**	630,026
Total liabilities and net assets	**$ 1,191,391**	$ 1,170,416

See accompanying notes to consolidated financial statements

VALLEY HEALTH SYSTEM AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF OPERATIONS
Years ended December 31, 2011 and 2010

	2011	2010
	(In Thousands)	
Unrestricted revenues, gains and other support		
Patient service revenue (net of contractual allowances and discounts)	$ 702,502	$ 676,752
Provision for bad debts	(49,950)	(45,648)
Net patient service revenue less provision for bad debts	652,552	631,104
Other operating revenue	34,163	31,288
Investment income	18,528	9,361
Gifts and bequests	255	197
Net assets released from restrictions	689	915
Total revenues, gains and other support	706,187	672,865
Expenses		
Salaries and wages	278,929	266,488
Payroll taxes and benefits	66,643	62,376
Supplies and other	257,229	249,626
Depreciation and amortization	41,599	39,960
Interest expense	10,490	10,315
Total expenses	654,890	628,765
Excess of revenues over expenses	51,297	44,100
Other changes in net assets		
Net unrealized gain (loss) on investments	(19,868)	17,164
Change in value of derivatives	(19,404)	(7,591)
Change in pension plan funded status	(61,983)	14,943
Acquisition of War Memorial Hospital	-	6,422
Other changes	(3)	(54)
Increase (decrease) in unrestricted net assets	$ (49,961)	$ 74,984

See accompanying notes to consolidated financial statements

VALLEY HEALTH SYSTEM AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CHANGES IN NET ASSETS
Years Ended December 31, 2011 and 2010

	2011	2010
	(In Thousands)	
Unrestricted net assets		
Excess of revenues over expenses	**$ 51,297**	$ 44,100
Net unrealized gain (loss) on investments	**(19,868)**	17,164
Change in value of derivatives	**(19,404)**	(7,591)
Change in pension plan funded status	**(61,983)**	14,943
Acquisition of War Memorial Hospital	**-**	6,422
Other changes	**(3)**	(54)
Increase (decrease) in unrestricted net assets	**(49,961)**	74,984
Temporarily restricted net assets		
Contributions	**1,207**	1,265
Net assets released from restrictions	**(689)**	(915)
Net realized and unrealized gain on investments	**220**	942
Transfers and adjustments	**(10)**	-
Increase in temporarily restricted net assets	**728**	1,292
Permanently restricted net assets		
Transfers and adjustments	**10**	-
Net realized and unrealized gain (loss) on investments	**(212)**	252
Increase (decrease) in permanently restricted net assets	**(202)**	252
Increase (decrease) in net assets	**(49,435)**	76,528
Net assets, beginning of year	**630,026**	553,498
Net assets, end of year	**$ 580,591**	$ 630,026

See accompanying notes to consolidated financial statements

VALLEY HEALTH SYSTEM AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS
Years Ended December 31, 2011 and 2010

	2011	2010
	(In Thousands)	
Cash flows from operating activities		
Change in net assets	$ (49,435)	$ 76,528
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Accretion of bond premium	(428)	(428)
Amortization of other assets	352	231
Depreciation and amortization	41,599	39,960
Net realized and unrealized gains (losses) on investments	6,008	(22,693)
Unrealized loss on derivatives	19,404	7,591
Provision for uncollectible accounts	49,950	45,648
Acquisition of War Memorial Hospital	-	(6,422)
(Gain) loss on sale of property and equipment	(241)	413
(Increase) decrease in:		
Patient accounts receivable, net	(63,566)	(52,536)
Third-party settlements	2,242	(7,852)
Inventory of supplies	(997)	(1,000)
Other current assets	(601)	4,500
Other assets	(196)	(899)
Increase (decrease) in:		
Accounts payable and accrued expenses	2,946	8,602
Accrued salaries and wages	1,894	(296)
Accrued pension and postretirement benefits	64,071	(6,836)
Other current liabilities	258	14,407
Other liabilities	4,296	(9,771)
Net cash provided by operating activities	77,556	89,147
Cash flows from investing activities		
Purchase of property and equipment	(141,117)	(121,013)
Proceeds from sale of property and equipment	759	1
Proceeds from sale of investments	214,815	106,857
Purchases of investments	(145,118)	(64,861)
Cash obtained with War acquisition	-	984
Net cash used in investing activities	(70,661)	(78,032)
Cash flows from financing activities		
Principal payments on long-term debt	(8,958)	(9,798)
Decrease in contributions receivable from remainder trust	-	1,897
Net cash used in financing activities	(8,958)	(7,901)
Net increase (decrease) in cash and cash equivalents	(2,063)	3,214
Cash and cash equivalents, beginning of year	50,632	47,418
Cash and cash equivalents, end of year	$ 48,569	$ 50,632

(Continued)

See accompanying notes to consolidated financial statements

VALLEY HEALTH SYSTEM AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS
Years Ended December 31, 2011 and 2010 (Continued)

	2011	2010
	(In Thousands)	
Supplemental disclosure of cash flow information		
Cash paid for interest, net of $3,937 thousand and $5,034 thousand capitalized in 2011 and 2010, respectively	$ 9,214	$ 6,878

	2010
Supplemental schedule of noncash investing and financing activities – acquisition of War Memorial Hospital	
Working capital, net	$ 543
Property and equipment	4,892
Other assets	3
	$ 5,438

See accompanying notes to consolidated financial statements

VALLEY HEALTH SYSTEM AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 1. Summary of Significant Accounting Policies

Organization: Valley Health System (VHS) was incorporated on November 4, 1983 as a not-for-profit holding company organized exclusively for charitable, benevolent, educational and scientific purposes to support and encourage health care and related services through providing financial, management and other assistance to its affiliates and other organizations. Subsidiaries of VHS, all of which are wholly owned, are as follows:

- Winchester Medical Center, Inc. (the Medical Center) — a 445 bed not-for-profit acute care hospital located in Winchester, Virginia.

- Winchester Medical Center Foundation (the Winchester Foundation) — an independent, not-for-profit non-stock corporation. The purpose of the Winchester Foundation is to fund educational, scientific, and charitable endeavors. The Medical Center is the sole corporate member of the Winchester Foundation. The accounts and activity of the Winchester Foundation are consolidated with those of the Medical Center.

- Warren Memorial Hospital, Inc. (Warren) — a not-for-profit corporation that owns and operates a 46 bed general short-term acute care hospital including a 120 bed long-term care facility located in Front Royal, Virginia.

- Warren Memorial Hospital Foundation (the Warren Foundation) — an independent, not-for-profit non-stock corporation. The purpose of the Warren Foundation is to fund educational, scientific, and charitable endeavors. Warren is the sole corporate member of the Warren Foundation. The accounts and activity of the Warren Foundation are consolidated with those of Warren.

- Shenandoah Memorial Hospital, Inc. (Shenandoah) — a not-for-profit corporation that owns and operates a 25 bed critical access hospital in Woodstock, Virginia.

- Shenandoah Memorial Hospital Foundation (the Shenandoah Foundation) — an independent, not-for-profit non-stock corporation. The purpose of the Shenandoah Foundation is to fund educational, scientific, and charitable endeavors. Shenandoah is the sole corporate member of the Shenandoah Foundation. The accounts and activity of the Shenandoah Foundation are consolidated with those of Shenandoah.

- Valley Regional Enterprises, Inc. (Valley Regional) — a for-profit organization which manages a home health care agency, leases and sells durable medical equipment and supplies, operates an ambulance service, an urgent care center, a retail pharmacy and provides physician office consulting services.

- Surgi-Center of Winchester, Inc. (Surgi-Center) — a not-for-profit ambulatory surgical care center.

- East Mountain Health Advantage, Inc. (East Mountain) — a not-for-profit corporation that was organized on February 2, 2007, with VHS as its sole corporate member. East Mountain was organized for the primary purpose of owning and operating healthcare facilities in West Virginia, including Hampshire and War.

- Hampshire Memorial Hospital, Inc. (Hampshire) – a not-for-profit corporation that owns and operates a 14-bed critical access hospital including a 30-bed skilled nursing facility in Romney, West Virginia.

- War Memorial Hospital, Inc. (War) – a not-for-profit corporation that owns and operates a 25-bed critical access hospital and a 16-bed skilled nursing facility in Berkeley Springs, West Virginia. See Note 22 for details of the acquisition by Valley Health System effective April 1, 2010.

- Hampshire Wellness Center, Inc. – On January 19, 2008, East Mountain Health Advantage entered into a long-term lease agreement to lease and operate a 60,000 square foot wellness center. The lease agreement with the Hampshire County Development Authority is for a period of 20 years.

  In 2008, Hampshire Wellness Center, Inc., a not-for-profit corporation, was established to operate the wellness center and assume responsibility for the lease. East Mountain Health Advantage is the sole corporate member of Hampshire Wellness Center, Inc.

- Page Memorial Hospital, Inc. (Page) – a not-for-profit corporation that owns and operates a 25-bed critical access hospital in Luray, Virginia. See Note 21 for details of acquisition by Valley Health System effective January 1, 2009.

- Valley Physician Enterprise, Inc. (VPE) – a not-for-profit corporation formed for the purpose of employing physicians and providing office management services to non-employed physicians in the communities served by VHS.

Principles of Consolidation: The consolidated financial statements include the accounts of Valley Health System and its subsidiaries (collectively referred to as VHS in the accompanying footnotes). All significant intercompany balances and transactions are eliminated in consolidation.

Use of Estimates: The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Cash and Cash Equivalents: Cash and cash equivalents are highly liquid interest-bearing bank deposits and repurchase agreements. The carrying amount of cash and cash equivalents approximates fair market value. For purposes of the statement of cash flows, VHS considers all highly liquid financial instruments purchased with an original maturity of three months or less to be cash equivalents.

Patient Accounts Receivable: Patient accounts receivable are carried at the original charge less an estimate made for doubtful or uncollectible accounts. In evaluating the collectability of accounts receivable, VHS analyzes its past history and identifies trends for each of its major payor sources of revenue to estimate the appropriate allowance for doubtful accounts and provision for bad debts. The allowance is based upon a review of the outstanding balances aged by financial class. Management uses collection percentages based upon historical collection experience to determine collectability Management also reviews troubled, aged accounts to determine collection potential. For receivables associated with self-pay patients (which includes both patients without insurance and patients with deductible and copayment balances due for which third–party coverage exists for part of the bill), VHS records a significant provision for bad debts in the period of service on the basis of its past experience, which indicates that many patients are unable or unwilling to pay the portion of their bill for which they are financially responsible. The difference between the standard rates (or the discounted rates if negotiated) and the amounts actually collected after all reasonable collection efforts have been exhausted is charged off against the allowance for doubtful accounts. Recoveries of accounts previously written off are recorded as a reduction to bad debt expense when received. Effective February 1, 2011 interest is charged on patient accounts receivable at 7% per annum after the account is six months old. Prior to February 1, 2011, interest was not charged on patient accounts receivable.

VHS's allowance for doubtful accounts for self-pay patients increased from 88 percent of self-pay accounts receivable at December 31, 2010, to 89 percent of self-pay accounts receivable at December 31, 2011. In addition, VHS's self-pay write offs increased approximately $4.4 million from $45.6 million for the fiscal year 2010 to $50 million for fiscal year 2011. Both increases were the result of negative trends experienced in the collection of amounts from self-pay patients in fiscal year 2011. During 2011, VHS changed its uninsured discount policies to 20% for patients with no third-party coverage and who did not qualify for charity care. VHS does not maintain a material allowance for doubtful accounts from third-party payors, nor did it have significant write offs from third-party payors.

Investments: Investments in equity securities with readily determinable fair values and all investments in debt securities are measured at fair value in the balance sheet. Investment income or loss (including realized gains and losses on investments, interest and dividends) is included in the excess of revenues over expenses unless the income or loss is restricted by donor or law. Unrealized gains and losses on investments are excluded from the excess of revenues over expenses unless the investments are trading securities. VHS does not require collateral to secure its investments.

Assets Limited as to Use: Assets limited as to use primarily include assets held by trustees under indenture agreements and designated assets set aside by the Board of Trustees for future capital improvements, over which the Board retains control and may at its discretion subsequently use for other purposes. Amounts required to meet current liabilities of VHS have been reclassified in the balance sheets at December 31, 2011 and 2010.

Inventory of Supplies: The inventory of supplies is maintained on a first-in, first-out basis and is stated at the lower of cost or market.

Property and Equipment: Property and equipment acquisitions are recorded at cost. Depreciation is provided over the estimated useful life of each class of depreciable asset and is computed using the straight-line method. Equipment under capital lease obligations is amortized on the straight-line method over the shorter period of the lease term or the estimated useful life of the equipment. Such amortization is included in depreciation and amortization in the financial statements. Interest cost incurred on borrowed funds during the period of construction of capital assets is capitalized as a component of the cost of acquiring those assets.

Gifts of long-lived assets such as land, buildings, or equipment are reported as unrestricted support, and are excluded from the excess of revenues over expenses, unless explicit donor stipulations specify how the donated assets must be used. Gifts of long-lived assets with explicit restrictions that specify how the assets are to be used, and gifts of cash or other assets that must be used to acquire long-lived assets, are reported as restricted support. Absent explicit donor stipulations about how long those long-lived assets must be maintained, expirations of donor restrictions are reported when the donated or acquired long-lived assets are placed in service.

Deferred Financing Costs: Deferred financing costs are amortized over the period the obligation is outstanding using the straight-line method, which is not materially different than the effective interest method. Amortization expense related to the deferred financing costs was $252 thousand and $267 thousand for 2011 and 2010, respectively.

Goodwill: VHS records as goodwill the excess of purchase price over the fair value of the identifiable net assets acquired. The FASB codification Topic 350, Accounting Standards Update No. 2011-08, *Goodwill and Other Intangible Assets,* permits an entity to first assess qualitative factors to determine whether it is more likely than not that the fair value of a reporting unit is less than its carrying amount as a basis for determining whether it is necessary to perform the two-step goodwill impairment test described in Topic 350. VHS elected to perform its annual analysis during the fourth quarter of each fiscal year. Impairment, of $100 thousand and $0 was identified during the years ended December 31, 2011 and 2010, respectively.

Temporarily and Permanently Restricted Net Assets: Temporarily restricted net assets are those whose use by VHS has been limited by donors to a specific time period or purpose. Permanently restricted net assets have been restricted by donors to be maintained by VHS in perpetuity.

Excess of Revenues over Expenses: The statements of operations include excess of revenues over expenses. Changes in unrestricted net assets which are excluded from excess of revenues over expenses, consistent with industry practice, include unrealized gains and losses on derivatives and investments other than trading securities, permanent transfers of assets to and from affiliates for other than goods and services, changes in pension funding status and contributions of long-lived assets (including assets acquired using contributions which by donor restriction were to be used for the purposes of acquiring such assets).

Net Patient Service Revenue: VHS has agreements with third-party payors that provide for payments at amounts different from its established rates. Payment arrangements include prospectively determined rates per discharge, reimbursed costs, discounted charges, and per diem payments. Net patient service revenue is reported at the estimated net realizable amounts from patients, third-party payors, and others for services rendered, including estimated retroactive adjustments under reimbursement agreements with third-party payors. Retroactive adjustments are accrued on an estimated basis in the period the related services are rendered and adjusted in future periods as final settlements are determined.

Charity Care: VHS provides care to patients who meet certain criteria under its charity care policy without charge or at amounts less than its established rates. Because VHS does not pursue collection of amounts determined to qualify as charity care, they are not reported as revenue.

Donor – Restricted Gifts: Unconditional promises to give cash and other assets to VHS are reported at fair value at the date the promise is received. Conditional promises to give and indications of intentions to give are reported at fair value at the date the gift is received. The gifts are reported as either temporarily or permanently restricted support if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires (that is, when a stipulated time restriction ends or a purpose restriction is accomplished), temporarily restricted net assets are reclassified as unrestricted net assets and reported in the statements of operations as net assets released from restrictions. Donor-restricted contributions whose restrictions are met within the same year as received are reflected as unrestricted gifts and bequests in the accompanying financial statements.

Income Taxes: VHS and its subsidiaries have been recognized by the Internal Revenue Service as not-for-profit corporations as described in Section 501(c)(3) and Section 501(a), respectively, of the Internal Revenue Code (IRC), and similar sections of state statutes, and are exempt from Federal and State income taxes, except for Valley Regional, which is a for-profit corporation subject to income taxes at the statutory Federal and State rates.

Unrelated Business Income Tax: There is currently very little guidance in the IRS Code on what activities should be subject to unrelated business income tax (UBIT). The IRS has indicated that they are studying the issue and may issue additional guidance. As a result, at this time there is uncertainty regarding whether VHS should pay income tax on certain types of net taxable income from activities that may be considered by taxing authorities as unrelated to the purpose for which VHS was granted non-taxable status. In the opinion of management, any liability resulting from taxing authorities imposing income taxes on the net taxable income from activities deemed to be unrelated to VHS's non-taxable status is not expected to have a material effect on VHS's financial position or results of operations.

VHS is subject to routine audits by taxing jurisdictions; however, there are currently no audits for any tax periods in progress. Management of VHS believes it is no longer subject to income tax examinations for years prior to the fiscal year ended December 31, 2008.

Derivative Instruments and Hedging Activities: VHS utilizes derivative financial instruments to reduce interest rate risk. VHS does not hold or issue derivative financial instruments for trading purposes. VHS recognizes all derivatives as either assets or liabilities and measures those instruments at fair value. The changes in the fair value of VHS derivative instruments are recorded as changes in net assets as they qualify for hedge accounting.

Subsequent Events: VHS has evaluated subsequent events through March 30, 2012, the date on which the financial statements were available to be issued.

Reclassifications: Certain amounts in the 2010 consolidated financial statements have been reclassified to conform to the 2011 presentation. The reclassifications have no impact on previously reported change in net assets.

New or Recent Accounting Pronouncements: In August 2010, the Financial Accounting Standards Board (FASB) issued Health Care Entities Topic 954 (Accounting Standards Update No. 2010-23) of the FASB Accounting Standards Codification *Measuring Charity Care for Disclosure*. The amended disclosure requirements are effective for fiscal years beginning after December 15, 2010 and must be applied retrospectively. Management's policy for providing charity care, as well as the level of charity care provided, shall be disclosed in the financial statements. Such disclosure shall be measured based on the provider's costs of providing charity care services. If costs cannot be specifically attributed to services provided to charity care patients (for example, based on a cost accounting system), management may estimate the costs of those services using reasonable techniques. VHS adopted the amended disclosure requirements on January 1, 2011. Note 2 reflects the amended disclosure requirements. Since the new guidance amends disclosure requirements only, its adoption did not impact VHS's consolidated balance sheets, consolidated statement of operations, or consolidated cash flow statements.

Health Care Entities Topic 954 (Accounting Standards Update No. 2010-24) of the FASB Accounting Standards Codification *Presentation of Insurance Claims and Related Insurance Recoveries* is effective for fiscal years beginning after December 15, 2010. A health care entity should not net insurance recoveries for medical malpractice claims against a related medical malpractice claim liability. Additionally, the amount of the claim liability should be determined without consideration of insurance recoveries A cumulative-effect adjustment should be recognized in opening net assets in the period of adoption if a difference exists between any liability and insurance receivables recorded as a result of application. VHS adopted Topic 954 (No. 2010-24) requirements on January 1, 2011. Implementation of this standard did not materially impact VHS's consolidated financial statements.

In July 2011, the FASB issued (Accounting Standards Update 2011-07), Health Care Entities Topic 954 *Presentation and Disclosure of Patient Service Revenue, Provision for Bad Debts, and the Allowance for Doubtful Accounts for Certain Health Care Entities*. The amendments in this Update become effective for fiscal years ending after December 15, 2012 and must be applied retroactively. The amendments in this Update require certain health care entities to change the presentation of their statement of operations by reclassifying the provision for bad debts associated with patient service revenue from an operating expense to a deduction from patient service revenue (net of contractual allowances and discounts). Additionally, those health care entities are required to provide enhanced disclosure about their policies for recognizing revenue and assessing bad debts. The amendments also require disclosures of patient service revenue (net of contractual allowances and discounts) as well as qualitative and quantitative information about changes in the allowance for doubtful accounts. VHS adopted the amended requirements on January 1, 2011, retroactive to January 1, 2010. Adoption of the amendments in this Update resulted in a decrease of $45,648 thousand in total revenues, gains and other support and total expenses in the statement of operations for the year ended December 31, 2010. Note 2 reflects the amended disclosure requirements.

Note 2. Net Patient Service Revenue and Charity Care Benefit

VHS has agreements with third-party payors that provide for reimbursement to VHS at amounts different from its established rates. Contractual adjustments under third-party reimbursement programs represent the difference between VHS billings at established rates for services and amounts reimbursed by third-party payors. A summary of the basis of reimbursement with major third-party payors follows:

Medical Center, Warren, Shenandoah, Hampshire, Page and War

- **Medicare**

  The Medical Center and Warren are reimbursed by Medicare under a prospective payment system (PPS). Under this methodology, inpatient acute care services rendered to Medicare program beneficiaries are paid at prospectively determined rates per discharge. These rates vary according to a patient classification system that is based on clinical, diagnostic and other factors. Inpatient nonacute services, and defined capital and medical education costs related to Medicare beneficiaries are paid based upon a cost reimbursement method, with a limited amount per discharge on certain nonacute patients. Reimbursement for cost reimbursable items is at a tentative rate with final settlement determined after submission of annual cost reports and audits thereof by the Medicare fiscal intermediary. The majority of outpatient services are paid at prospectively determined rates per medical procedure. Classification of patients under the Medicare program and the appropriateness of their admission are subjected to an independent review by a peer review organization under contract.

  Shenandoah, Hampshire, Page and War are licensed as Critical Access Hospitals. Inpatient services and most outpatient services rendered to Medicare program beneficiaries at Shenandoah, Hampshire, Page and War are paid based on a cost reimbursement methodology at 101% of allowable cost. Other outpatient services are paid based on fee schedules.

- **Medicaid**

  Reimbursement for inpatients is based entirely on prospectively determined rates per discharge based on primary diagnosis code. Outpatient services are reimbursed based upon a cost reimbursement methodology. Hampshire and War are located in West Virginia and are reimbursed for inpatient and most outpatient services under a cost reimbursement methodology.

- **Anthem**

  Inpatient services are reimbursed based on a prospectively determined rate per discharge. These rates vary according to a patient classification system that is based on clinical, diagnostic and other factors. Outpatient services are reimbursed by percentage of charges or fee schedule based on diagnosis and are not subject to retroactive adjustment.

The Hospitals have also entered into payment agreements with certain commercial insurance carriers, health maintenance organizations, and preferred provider organizations. The basis for payment under these agreements includes prospectively determined rates per discharge, discounts from established charges and prospectively determined daily rates.

Revenue from the Medicare and Medicaid programs accounted for approximately 47 percent and 11 percent, respectively, of VHS's gross patient revenue, for the year ended December 31, 2011 and 46 percent and 10 percent, respectively, of VHS's gross patient revenue, for the year ended December 31, 2010. Laws and regulations governing the Medicare and Medicaid programs are extremely complex and subject to interpretation. As a result, there is at least a reasonable possibility that recorded estimates will change by a material amount in the near term. The 2011 and 2010 net patient service revenue increased (decreased) approximately $(91) thousand and $6.5 million, respectively, due to the addition of allowances not previously estimated that are considered necessary, as a result of final settlements and years that are no longer subject to audits, reviews and investigations.

Valley Regional and Surgi-Center

Valley Regional and Surgi-Center are reimbursed under agreements with Medicare, Medicaid, and Anthem at prospectively determined rates for each procedure or service rendered.

Medicaid Provider Tax Disallowance

The Centers for Medicare and Medicaid Services (CMS) has recently directed some local intermediaries to disallow the cost of provider taxes claimed in cost reports. Hospitals claimed the tax assessment as an allowable cost under the applicable regulations and the Provider Reimbursement Manual (PRM) sections. Hospitals have relied upon the fact that CMS approved applicable State Plan Amendments relating to the Provider Tax Assessments. Valley Health System has two hospital critical access hospitals that paid the provider tax and included it as an allowable expense. The disallowance may be applied retroactively for several years and the impact could be $1 million to $2 million, depending upon various factors. No provision for any potential liability has been recorded by VHS. Management and various associations representing affected hospitals plan to appeal the disallowance The ultimate outcome of the issue is unknown at this time.

Charity Care

VHS provides charity care to patients who are financially unable to pay for the health care services they receive. VHS's policy is not to pursue collection of amounts determined to qualify as charity care if the patient qualifies (up to 200% of the Federal Poverty Guidelines) A sliding scale discount is applied for those patients that qualify between 200% and 300% of the Federal Poverty Guidelines. Accordingly, VHS does not report these amounts in the net revenues or in the allowance for doubtful accounts. VHS determined the costs associated with providing charity care by aggregating the applicable direct and indirect costs, including salaries, wages and benefits, supplies, and other operating expenses, based on data from its costing system. The costs of caring for charity care patients for the years ended December 31, 2011 and 2010 were approximately $31.7 million and $31.4 million, respectively.

VHS maintains records to identify and monitor the level of charity care it provides. These records include the amount of charges forgone for services and supplies furnished under its charity care policy, the estimated cost of those services and supplies, and equivalent service statistics. The following information measures the level of charity care provided during the years ended December 31 (in thousands):

A summary of gross and net patient service revenue for all of VHS's payors for the years ended December 31, 2011 and 2010 follows (in thousands):

	2011	2010
Gross patient service revenue	**$ 1,258,089**	$ 1,171,314
Less provision for:		
Contractual adjustments	**492,188**	431,665
Provision for bad debts	**49,950**	45,648
Charity care	**63,399**	62,897
Net patient service revenue	**$ 652,552**	$ 631,104

VHS recognizes patient service revenue associated with services provided to patients who have third-party payor coverage on the basis of contractual rates for the services rendered. For uninsured patients that do not qualify for charity care, VHS recognizes revenue on the basis of its standard rates for services provided (or on the basis of discounted rates, if negotiated or provided by policy). On the basis of historical experience, a significant portion of VHS's uninsured patients will be unable or unwilling to pay for the services provided. Thus VHS records a significant provision for bad debts related to uninsured patients in the period the services are provided. Patient service revenue, net of contractual allowances and discounts (but before the provision for bad debts), recognized during the years ended December 31, 2011 and 2010

from these major payor sources, is as follows (in thousands):

2011	**Third-Party Payors**	**Self-Pay**	**Total All Payors**
Patient service revenue (net of contractual allowances and discounts)	**$ 668,579**	**$ 33,923**	**$ 702,502**

2010	Third-Party Payors	Self-Pay	Total All Payors
Patient service revenue (net of contractual allowances and discounts)	$ 646,153	$ 30,599	$ 676,752

Note 3. Cash Concentrations

VHS maintains cash and cash equivalents on deposit with financial institutions. At times the balance in these accounts may be in excess of Federally insured limits. However, management believes these financial institutions are financially sound and these concentrations do not present a significant risk to VHS.

Note 4. Concentration of Credit Risk

VHS grants credit without collateral to its patients, most of whom are local residents and are insured under third-party payor agreements. The mix of receivables from patients and third-party payors at December 31 was as follows:

	2011	2010
Medicare	**31%**	36%
Medicaid	**13%**	12%
Anthem	**20%**	17%
Commercial and other	**30%**	28%
Self-pay	**6%**	7%
	100%	100%

Note 5. Investments and Commitment

VHS has investments in pooled investment funds, investments held by a trustee under existing debt agreements, investments held by financial institutions and individual investments in entities that provide related healthcare services.

Pooled Investments: The Medical Center, Warren, Shenandoah, their respective foundations, and Surgi-Center combine their investments in an investment pool which includes cash and cash equivalents, unrestricted investments and assets limited as to use. The pooled investment funds are allocated to these categories based upon an allocation formula approved by the Board of Trustees. The investments in the pool, are stated at fair value at December 31 and are summarized as follows (in thousands):

	2011	2010
Unrestricted investments	**$ 240,838**	$ 251,221
Assets limited as to use	**89,247**	89,505
Total Pooled Investments	**$ 330,085**	$ 340,726

The composition of investments held in the investment pool at December 31 at fair value, is as follows (in thousands):

	2011	2010
Money Market Funds	$ 24,166	$ 26,004
Municipal bonds	200	400
Common stock	17,649	19,489
Mutual funds	192,683	185,223
Private realty and resources ltd partnerships	29,660	16,225
Alternative investments	65,727	93,385
	$ 330,085	$ 340,726

Other investments that are in addition to the pooled investments that make up the composition of investments and assets limited as to use, as of December 31, 2011 and 2010, respectively, consist primarily of commercial paper, equity method investments, corporate and municipal bonds, mutual funds and cash and cash equivalents of approximately $68 million and $147 million, respectively.

At December 31, 2011, approximately 15% of VHS's investments, including pooled investments, are represented by one mutual fund which has a value that exceeds 10% of VHS's total investments. The PIMCO Total Return II Fund held 15% of total investments. This fund primarily invests in a diversified portfolio of fixed income securities with varying durations.

At December 31, 2010, approximately 10% of VHS's investments, including pooled investments, are represented by one mutual fund, which has a value that exceeds 10% of VHS's total investments. The PIMCO Total Return II Fund held 10% of total investments. This fund primarily invests in a diversified portfolio of fixed income securities with varying durations.

Assets Limited as to Use

The composition of assets limited as to use at December 31, the majority of which are included in the pooled investments, is as follows (in thousands):

	2011	2010
By Board for capital improvements		
Pooled investments	$ 81,600	$ 82,456
Held by trustee under indenture agreements		
U.S. Treasury securities	45,501	114,077
Cash and cash equivalents	60	307
Interest receivable	101	101
Total	45,662	114,485
Endowment Fund		
Beneficial interest in trusts	5,348	5,426
Other	-	8
Total	5,348	5,434
Deferred Compensation plans		
Mutual funds	7,425	18,171

VALLEY HEALTH SYSTEM AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

	2011	2010
Restricted by Donors		
Pooled investment funds - WMC	**6,580**	6,149
Pooled investment funds - WMH	**1,067**	900
Total	**7,647**	7,049
Total assets limited as to use	**147,682**	227,595
Less assets limited as to use that are required for current liabilities	**(13,903)**	(27,073)
Noncurrent assets limited as to use	**$ 133,779**	$ 200,522

Other Investments

Other investments at December 31, 2011 and 2010 include (in thousands):

	2011	2010
Investments recorded on equity method	**$ 8,377**	$ 8,181
Investments recorded on cost basis	**135**	135
	$ 8,512	$ 8,316

Investments recorded on the equity method include $5.2 million at December 31, 2011 and 2010 related to VHS's investment in Virginia Solutions SPC LTD (the Captive) (Note 18). VHS is accounting for its investment in the Captive, a 47% owned affiliate, by the equity method of accounting under which VHS's share of the net income of the Captive is recognized as income in VHS's statement of operations and added to the investment account, and dividends received, if any, from the Captive are treated as a reduction of the investment account. Condensed, unaudited, financial information of the Captive for the years ending December 31, 2011 and 2010 is as follows (in thousands):

	2011	2010
Cash and investments	**$ 46,178**	$ 40,911
Receivables and other assets	**$ 12,929**	$ 9,197
Unearned premiums	**$ (3,511)**	$ (3,439)
Claims reserve	**$ (37,209)**	$ (33,605)
Accounts payable and other accrued liabilities	**$ (2,454)**	$ (1,038)
Shareholder's (equity)	**$ (15,933)**	$ (12,026)
Net income	**$ 5,267**	$ 1,679

Investment income and gains and losses for investments, cash equivalents and assets limited as to use are comprised of the following for the years ending December 31 (in thousands):

	2011	2010
Income		
Investment income	**$ 4,668**	$ 4,651
Impairment – investment write-down	**-**	(720)
Net realized gains on sale of securities	**13,860**	5,430
	$ 18,528	$ 9,361
Other Changes in Unrestricted Net Assets		
Net unrealized gains (losses) on other than trading securities	**$ (19,868)**	$ 17,164

Interest and investment income is shown net of investment manager fees of $611 thousand and $507 thousand at December 31, 2011 and 2010, respectively.

Purchase Commitment

Investment agreements with TIFF Realty and Resources II, GMO Renewable Resources, MIT Private Equity Fund, and Oaktree Private Investment Fund contain investment commitments of $10 million, $10.2 million, $3.1 million, and $7 million, respectively, of which approximately $11.3 million is outstanding at December 31, 2011. Future increases in the investments will be made as requested by the manager of these funds and is based upon planned acquisitions of investment properties.

Impairment

Impairment is evaluated using numerous factors, and their relative significance varies case to case. Factors considered included length of time and extent to which the market value has been less than cost; the financial condition and near-term prospects of the issuer; and the intent and ability to retain the security in order to allow for an anticipated recovery in market value. If, based on the analysis, it is determined that the impairment is other-than-temporary, the security is written down to fair value, and a loss would be recognized in the statement of operations. At December 31, 2011, VHS determined that no write-downs were necessary. During 2010, VHS determined that the investment in Private Advisors was impaired and wrote the investment down $720 thousand, which approximated 25% of the investment market value at December 31, 2010. No other investments were deemed to be impaired during 2010.

Note 6. Temporarily Restricted and Permanently Restricted Net Assets and Endowments

Temporarily restricted net assets are available for the following purposes at December 31 (in thousands):

	2011	2010
Healthcare services		
Indigent/charity care	**$ 2,035**	$ 2,737
Programs/equipment	**6,591**	5,695
Education	**4,457**	3,923
	$ 13,083	$ 12,355

Permanently restricted net assets at December 31, 2011 and 2010 are restricted to (in thousands):

	2011	2010
Investments to be held in perpetuity, the income from which is expendable to support indigent care, equipment purchases and health education	**$ 4,400**	$ 4,602

Net assets released from restrictions by incurring expenses satisfying the restricted purposes of indigent care, equipment purchases and health education was $689 thousand and $915 thousand for 2011 and 2010, respectively.

Topic 958-205 of the FASB Standards Codification (formerly FASB Staff Position No. 117-1, *Endowments of Not-for-Profit Organizations - Net Asset Classification of Funds Subject to an Enacted Version of the Uniform Prudent Management of Institutional Funds Act, and Enhanced Disclosures for All Endowment Funds*), which, among other things, provides guidance on the net asset classification of donor-restricted endowment funds for a not-for-profit organization that is subject to an enacted version of the Uniform Prudent Management of Institutional Act of 2006 (UPMIFA) and additional disclosures about an organization's endowment funds.

The endowments include both donor-restricted endowment funds and funds designated by the Board of Trustees to function as endowments. Net assets associated with endowment funds, including funds designated by the Board of Trustees to function as endowments, are classified and reported based on the existence or absence of donor-imposed restrictions.

The Board of Trustees of VHS has interpreted the Uniform Prudent Management of Institutional Funds Act (UPMIFA) as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, VHS classifies as permanently restricted net assets (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. The remaining portion of the donor-restricted endowment fund that is not classified in permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the organization in a manner consistent with the standard of prudence prescribed by UPMIFA. In accordance with UPMIFA, VHS considers the following factors in making a determination to appropriate or accumulate donor-restricted funds:

1. The duration and preservation of the fund
2. The purpose of the Foundation and the donor-restricted endowment fund
3. General economic conditions
4. The possible effect of inflation and deflation
5. The expected total return from income and the appreciation of investments
6. Other resources of the Foundation
7. The investment policies of the Foundation

VHS has adopted investment and spending policies for endowment assets that attempt to provide a predictable stream of funding to programs supported by its endowment while seeking to maintain purchasing power of the endowment assets. Endowment assets include those assets of donor-restricted funds that VHS must hold in perpetuity or for a donor-specific period(s) as well as board-designated funds. Under this policy, as approved by the Board of Trustees, the endowment assets are invested in a manner that is intended to produce a real return, net of inflation and investment management costs, of at least 5% over the long term. Actual returns in any given year may vary from this amount.

To satisfy its long-term rate-of-return objectives, VHS relies on a total return strategy in which investment returns are achieved through both capital appreciation (realized and unrealized) and current yield (interest and dividends) VHS targets a diversified asset allocation that places a greater emphasis on equity-based and alternative investments to achieve its long-term objective within prudent risk constraints.

Changes in endowment funds for the fiscal year ended December 31, 2011 and 2010 are immaterial and therefore not disclosed.

From time to time, the fair value of assets associated with individual donor-restricted endowments funds may fall below the level that the donor or UPMIFA requires VHS to retain as a fund of perpetual duration. These deficiencies result from unfavorable market fluctuations that occurred shortly after the investment of new permanently restricted contributions and continued appropriation for certain programs that was deemed prudent by the Board of Trustees. There were no significant deficiencies of this nature which are reported in unrestricted net assets as of December 31, 2011 and 2010.

Note 7. Property and Equipment

A summary of property and equipment at December 31 follows (in thousands):

	2011	2010
Land	$ 16,345	$ 16,345
Land improvements	38,786	38,087
Buildings and leasehold improvements	516,070	374,176
Fixed equipment	151,356	130,884
Major movable equipment	289,463	263,599
	1,012,020	823,091
Less accumulated depreciation and amortization	453,193	423,204
	558,827	399,887
Land held for future construction	3,313	3,313
Construction in progress	52,088	112,028
Property and equipment, net	$ 614,228	$ 515,228

Estimated costs to complete construction projects that have been in progress are approximately $140 million as of December 31, 2011.

Note 8. Long-Term Debt

A summary of long-term debt at December 31 follows (in thousands):

	2011	2010
Bonds payable:		
Medical Center	$ 330,196	$ 339,023
Warren	26,388	26,388
Shenandoah	10,718	10,718
East Mountain	25,000	25,000
Note payable, individual		
Note payable, due in annual principal and interest installments of $1 million with a final payment due of $500 thousand, bearing interest at 4%, secured by acquired assets and accounts receivable of Hampshire Memorial Hospital.	954	1,164
Capital leases payable – Page, secured by related equipment.	440	789
Total	393,696	403,082
Less current installments	10,200	9,911
Long-term debt, excluding current installments	$ 383,496	$ 393,171

VALLEY HEALTH SYSTEM AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Aggregate maturities of long-term debt as of December 31, 2011 are due in future years as follows (in thousands):

	Medical Center	Warren	Shenandoah	East Mountain	Page	Total
2012	$ 8,900	$ -	$ -	$ 954	$ 346	$ 10,200
2013	9,400	-	-	-	94	9,494
2014	10,200	-	-	-	-	10,200
2015	4,294	306	124	365	-	5,089
2016	5,174	350	142	380	-	6,046
Thereafter	292,228	25,732	10,452	24,255	-	352,667
	$ 330,196	$ 26,388	$ 10,718	$ 25,954	$ 440	$ 393,696

	Medical Center							Warren	Shenandoah	East Mountain	
Series	2007	2000	1993	1991	2009 A-D	2009E		2007	2007	2009	
Maturity	Serial and Term Bonds	Serial and Term Bonds	IFRNS/ SURFS(2)	RIBS/ SAVRS(1)	Variable	Fixed	Medical Center Total	Serial and Term Bonds	Serial and Term Bonds	Fixed	Valley Health System Total
2012	$ -	$ -	$ 2,100	$ 6,800	$ -	$ -	$ 8,900	$ -	$ -	$ -	$ 8,900
2013	-	-	2,200	7,200	-	-	9,400	-	-	-	9,400
2014	-	-	2,400	7,800	-	-	10,200	-	-	-	10,200
2015	594	500	2,500	-	-	700	4,294	306	124	365	5,089
2016	679	3,100	-	-	675	720	5,174	350	142	380	6,049
2017	687	3,300	-	-	700	730	5,417	354	144	395	6,310
2018	699	3,500	-	-	720	745	5,664	360	146	410	6,580
2019	713	3,700	-	-	740	765	5,918	367	149	430	6,864
2020	789	3,800	-	-	765	-	5,354	406	165	-	5,925
2021	763	4,100	-	-	790	-	5,653	493	160	-	6,206
2022	797	4,300	-	-	815	-	5,912	411	167	-	6,490
2023	841	4,500	-	-	845	-	6,186	433	176	-	6,795
2024	887	4,700	-	-	865	4,080	10,532	457	186	2,485	13,660
2025	890	5,000	-	-	895	-	6,785	459	186	-	7,430
2026	899	5,300	-	-	925	-	7,124	463	188	-	7,775
2027	916	5,600	-	-	955	-	7,471	472	192	-	8,135
2028	942	5,900	-	-	985	-	7,827	486	197	-	8,510
2029	980	6,200	-	-	1,015	4,575	12,770	505	205	3,220	16,700
2030	1,024	6,500	-	-	1,045	-	8,569	527	214	-	9,310
2031	4,961	-	-	-	1,085	-	6,046	2,556	1,038	-	9,640
2032	5,225	-	-	-	1,120	-	6,345	2,692	1,093	-	10,130
2033	5,510	-	-	-	1,160	-	6,670	2,837	1,153	-	10,660
2034	5,805	-	-	-	1,195	5,605	12,605	2,990	1,215	4,215	21,025
2035	6,118	-	-	-	1,240	-	7,358	3,152	1,280	-	11,790
2036	6,449	-	-	-	1,285	-	7,734	3,322	1,349	-	12,405
2037	4,062	-	-	-	1,330	-	5,392	2,090	849	-	8,331
2038	-	-	-	-	6,050	-	6,050	-	-	-	6,050
2039	-	-	-	-	13,575	21,430	35,005	-	-	5,610	40,615
2040	-	-	-	-	14,050	-	14,050	-	-	-	14,050
2041	-	-	-	-	14,540	-	14,540	-	-	-	14,540
2042	-	-	-	-	15,055	-	15,055	-	-	-	15,055
2043	-	-	-	-	15,580	-	15,580	-	-	-	15,580
2044	-	-	-	-	-	35,650	35,650	-	-	7,490	43,140
	51,230	70,000	9,200	21,800	100,000	75,000	327,230	26,388	10,718	25,000	389,336
Premium	2,262	-	-	704	-	-	2,966	-	-	-	2,966
Total	$ 53,492	$ 70,000	$ 9,200	$ 22,504	$ 100,000	$ 75,000	$ 330,196	$ 26,388	$ 10,718	$ 25,000	$ 392,302

(1) RIBS - residual interest bonds, SAVRS - select auction variable rate securities.
(2) IFRNS - inverse floating rate notes, SURFS - step-up recovery floaters.

A detail description of the bond indebtedness follows:

In November and December 2009, the Industrial Development Authority of the City of Winchester (the Winchester Authority) issued $175 million Industrial Development Authority of the City of Winchester Hospital Revenue Bonds, Series 2009. In December 2009, the West Virginia Hospital Finance Authority (the West Virginia Authority) issued $25 million Hospital Revenue Bonds, Series 2009. The Series 2009 Bonds were used for the purposes of financing certain capital needs of the Winchester Medical Center, Shenandoah Memorial Hospital, Warren Memorial Hospital, and for construction of a new facility at Hampshire Memorial Hospital, (collectively the Obligated Group), and to reimburse the Obligated Group for certain past capital expenditures. The bonds are secured by a pledge of payment pursuant to the Loan Agreement under the Master Trust Indenture dated as of September 1, 1986. Each member of the Obligated Group has recorded their respective portion of the obligation. The bonds are secured by a pledge of payment pursuant to Loan Agreements between the Obligated Group, the Winchester Authority and the West Virginia Authority, respectively. In accordance with the respective trust indentures, the Winchester Authority and the West Virginia Authority assigned the promissory notes and the payment thereon to the Bond Trustees. Payments of principal and interest are made directly to the Bond trustees for the account of the Authorities.

On January 30, 2007, the Industrial Development Authority of the City of Winchester (the Winchester Authority) issued $88.3 million Industrial Development Authority of the City of Winchester Hospital Revenue Bonds, Series 2007. The Series 2007 bonds were issued for the purpose of financing and refinancing certain capital needs of the Medical Center, Warren and Shenandoah (the Obligated Group). The bonds are limited obligations of the Winchester Authority and will be payable solely from the Obligated Group. The bonds are secured by a pledge of payment pursuant to the Loan Agreement under the Master Trust Indenture dated as of September 1, 1986. A portion of the proceeds were used to refinance Warren's Series 2003 bonds and Shenandoah's Series 2003 bonds. Each member of the Obligated Group has recorded their respective portion of the obligation.

The Medical Center has also entered into promissory notes with the Winchester Authority whereby the Medical Center has become obligated under Hospital Facility Revenue Bonds, Series 1991 and Series 1993. In addition to its notes with the Winchester Authority, the Medical Center has entered into promissory notes with the Industrial Development Authority of Clarke County, Virginia (the Clarke County Authority) whereby the Medical Center has become obligated under Hospital Facility Revenue Bonds, Series 2000. In accordance with the respective trust indentures, the Authorities assigned the promissory notes and the payments thereon to the Bond Trustees. Payments of principal and interest are made directly to the Bond Trustees for the account of the Authorities. The payment of principal and interest on the Series 1991 and Series 1993 bonds is insured by municipal bond insurance policies issued by AMBAC Indemnity Corporation. The payment of principal and interest on the Series 2000 and Series 2007 bonds is insured by Financial Security Assurance. All bond issues are rated A1 by Moody's and A+ by Standard and Poor's as of the latest rating date. Under the Bond Indenture of Trust, the Medical Center was required to place the majority of proceeds into certain trust funds. The Series 1991 bonds were used to finance the construction of an imaging center, purchase hospital equipment, and refund the term bonds of the Series 1986 issue. The Series 1993 bonds refunded the remainder of the Series 1986 bonds and the entire Series 1990 issue. The Series 2000 bonds were used to finance certain improvements to the Medical Center's facilities. The bonds are secured by the Medical Center's Trust Agreements to the respective Authorities in the amount of the bonds payable. The Trust Agreements are secured by all revenue and receipts and pledged assets of the Medical Center. Pledged assets consist of accounts receivable, inventories, general intangibles and various other assets.

The trust indentures include various restrictive covenants, one of which requires the Medical Center to maintain a debt service coverage ratio of 1.1 to 1.0 (defined in the indentures as the ratio of income available for debt service to annual debt service commitments). The Series 2009 Bonds include additional covenants, including a debt services coverage ratio of 1.25 to 1, a debt to capitalization ratio of not greater than .65, and requires the day's cash on hand to be not less than 100 days. Upon the occurrence of events of noncompliance with such covenants, the principal of the bonds could be declared due and payable immediately by the Bond Trustees. As of and for the year ended, December 31, 2011 and 2010, Valley Health System was in compliance with such covenants.

At December 31, 2011, interest rates range from .16% to .40% on the serial and term bonds, 4.85% on the RIBS/SAVRS and 4.85% to 5.5% on the IFRNS/SURFS.

The Series 2000 bonds and Series 2007 bonds bear interest at a variable rate which resets to market weekly. The rate for the Series 2000 bonds was .16% at December 31, 2011. The rates for the Series 2007 bonds were 5.0% to 5.25% at December 31, 2011.

The RIBS/SAVRS mature on the second business day preceding the interest payment date on or immediately succeeding each January 1. All other bonds mature on January 1 each year.

The trust indenture requires the creation of sinking funds for redemption of the bonds each January 1, as follows (in thousands):

Term bonds due January 1, 2012		IFNRS due January 1, 2015	
Year	Sinking fund installment	Year	Sinking fund installment
2012	$ 2,100	2012	$ 2,100
2013	2,200	2013	2,200
		2014	2,400
	$ 4,300	2015	2,500
			$ 9,200

Note 9. Other Current Assets

Other current assets consist of the following at December 31, 2011 and 2010 (in thousands):

	2011	2010
Prepaid service contracts	$ 2,122	$ 4,786
Security deposits	545	605
Prepaid insurance	643	1,280
Interest receivable	101	57
Pledges receivable	6	20
Rent receivable	28	46
Other non-patient receivables	5,880	2,987
Deferred tax asset	445	376
Other	1,882	894
Total other current assets	$ 11,652	$ 11,051

Note 10. Other Noncurrent Liabilities

Other noncurrent liabilities consist of the following at December 31, 2011 and 2010 (in thousands):

	2011	2010
Interest rate swap agreements	$ 39,121	$ 19,717
Deferred compensation – attending faculty plan (Note 18)	5,799	2,580
Deferred tax (asset) liability	169	(98)
Other	2,200	1,390
Total other noncurrent liabilities	$ 47,289	$ 23,589

Note 11. Interest Rate Risk Management

Medical Center, Shenandoah, Warren and East Mountain Health Advantage (the Hospitals)

The Hospitals have interest rate related derivative instruments to manage interest rate exposure on their debt instruments. The Hospitals do not enter into derivative instruments for any purpose other than interest rate management purposes. That is, the Hospitals do not speculate using derivative instruments.

By using derivative financial instruments to hedge exposures to changes in interest rates, the Hospitals expose themselves to credit risk and market risk. Credit risk is the failure of the counter-party to perform under the terms of the derivative contract. When the fair value of a derivative contract is positive, the counter-party owes the Hospitals, which creates credit risk for the Hospitals. When the fair value of a derivative contract is negative, the Hospitals owe the counter-party and, therefore, it does not possess credit risk. The Hospitals minimize the credit risk in derivative instruments by entering into transactions with high-quality counter-parties.

Market risk is the adverse effect on the value of a financial instrument that results from a change in interest rates. The market risk associated with interest rates is managed by establishing and monitoring parameters that limit the types and degree of market risk that may be undertaken.

The Hospitals use variable-rate debt to finance their operational and capital needs. The debt obligations expose the Hospitals to variability in interest payments due to changes in interest rates. Conversely, fixed-rate debt obligations can be more expensive to the Hospitals in times of declining interest rates. Management believes it is prudent to monitor and manage its cost of capital on a regular basis. To meet this objective, management from time to time may enter into interest rate swap agreements to manage fluctuations in cash flows resulting from interest rate risk.

The Hospitals have entered into interest rate swap agreements in the notional amount of approximately $234 million related to the Series 1991, 2000, 2007 and 2009 bonds. The purpose of the swaps was to convert the variable-rate cash flow exposure on the debt obligations to fixed rate cash flows Under the terms of the interest rate swaps, the Hospitals receive a variable interest rate payment based on the Bond Rate, or if certain triggering events occur, an alternative floating rate in exchange for making fixed interest rate payments to the swap counter-party, thereby creating the equivalent of fixed-rate debt.

In September 2001, the Medical Center entered into an interest rate swap agreement in the notional amount of $70 million related to the Series 2000 bonds. The purpose of the swap was to convert the Medical Center's variable-rate cash flow exposure on the debt obligations to fixed rate cash flows. Under the terms of the interest rate swap, the Medical Center receives a variable interest rate payment (based on the Bond Rate, or if certain triggering events occur, an alternative floating rate which is the Bond Market Association (BMA) Municipal Bond Index or 68% of 1 month LIBOR) in exchange for making fixed interest rate payments (4.44%) to the swap counter-party, thereby creating the equivalent of fixed-rate debt. In September 2008, Lehman Brothers, the swap counter-party, filed for bankruptcy which terminated the swap. The impact of changing interest rates reversed the swap to a positive value. A claim has been filed with the bankruptcy court for the sum of $8 million dollars. Due to the possibility that the funds will not be collected, a reserve has been made for $8 million at December 31, 2011 and 2010.

In August 2005, the Medical Center refinanced the outstanding bonds of its 1991 series in the amount of $54.6 million. Holders of the bonds were requested to tender the bonds at a $2.73 million premium. Merrill Lynch, Pierce, Fenner & Smith, Inc. (Merrill Lynch) purchased the tendered bonds. The purpose of the refinancing was to obtain an interest rate lower than the 6.05% fixed rate on the bonds. The Medical Center entered into two interest rate swap agreements with Merrill Lynch. Under the terms of the first interest rate swap, the Medical Center receives a floating interest rate payment semi-annually based on the BMA Municipal Bond Index, or if this index is no longer published, Merrill Lynch will set the rate based on prevailing rates. For 2011 and 2010, the Medical Center received $2.3 million and $2.7 million, respectively, for this swap. Under the terms of the second interest rate swap, the Medical Center receives a fixed rate of 3.113% and semi-annually pays Merrill Lynch the difference between the fixed rate and 67% of LIBOR. For 2011 and 2010, the Medical Center paid Merrill Lynch $702 and $881 thousand, respectively, for this swap.

In November 2006, the Medical Center entered into an interest rate swap agreement in the notional amount of $91.8 million related to the Series 2007 bonds. Under the terms of the interest rate swap, the Medical Center receives a floating interest rate payment monthly based on the BMA Municipal Bond Index, or if this index is no longer published, Merrill Lynch will set the rate based on prevailing rates, or if certain triggering events occur, an alternative floating rate of 67% of 1 month LIBOR plus .365%. In 2011 and 2010, the Medical Center received $280 thousand and $282 thousand, respectively, for this swap.

On February 7, 2008, the Medical Center entered into an interest rate swap agreement in the notional amount of $100 million related to the financing arrangements incurred in 2009. Under the terms of the interest rate swap, the Medical Center will receive a floating interest rate payment based on 67% of 1 month LIBOR. The purpose of this swap was to lock into current bond rates for the 2009 Bonds (Note 8). As of December 31, 2011 and 2010, a $21 million and $4.7 million unrealized loss was recorded, respectively. For 2011 and 2010, the Medical Center paid $3.3 million, for this swap.

Fair Value of Derivative Instruments designated as hedging instruments are as follows (in thousands):

Balance Sheet Location	Fair Value 2011	2010
Cash Flow Hedges:		
Interest rate contracts - other long-term liabilities	**$ (39,121)**	$ (19,717)
Total derivative designated as hedging instruments	**$ (39,121)**	$ (19,717)

The following table summarizes the effect of Derivative Instruments on the Statement of Changes in Net Assets for the years ended December 31, 2011 and 2010 (in thousands).

Derivatives designated as Hedging Instruments for the Year Ending December 31	Location of Gain or (Loss) Recognized in Income	Amount of Gain or (Loss) Recognized in Other Changes in Net Assets (Effective Portion) 2011	2010
Cash Flow Hedges:			
Interest rate contracts	Change in value of derivatives	**$ (19,404)**	$ (7,591)

For the years ended December 31, 2011 and 2010, no amounts related to derivative financial instruments were recorded in excess of revenues over expenses, and no amounts were moved out of other changes in nets assets and reclassed into excess of revenues over expenses.

Note 12. Pension Plans

Defined Benefit Pension Plans:

Valley Health System Plan

VHS has a defined benefit pension plan covering substantially all of its employees and the employees of its subsidiaries. Benefits under the pension equity formula are expressed in terms of a lump sum based on final average earnings and pension credits earned for years of service. Some employees' benefits are grandfathered using a prior formula that based annuity amounts on final average earnings and service. The pension plan has been amended to allow for supplemental pension benefits under a one-time early retirement program (the Program) for employees meeting certain age and length of service requirements. VHS makes annual contributions to the Valley Health System Employees Retirement Plan (the Plan) in accordance with funding requirements determined by an actuary. Contributions are intended to provide not only for benefits attributed to service to date, but also for those expected to be earned in the future. Contributions of $6 million and $4.5 million were made in 2011 and 2010, respectively.

Effective January 1, 2011, Valley Health System elected to soft-freeze the Valley Health System Employees Retirement Plan. Participation is frozen such that there shall be no new participants in the Plan after January 2, 2011. Participants as of January 1, 2011 will continue to participate with no change to the years of services rules or the benefits calculation. The Valley Health System contributory 403(b) plan will remain in place.

The reconciliation of the Plan's funded status to amounts recognized in VHS's consolidated financial statements at December 31 is as follows (in thousands):

Obligations and funded status:

	2011	2010
Fair value of plan assets	**$ 159,096**	$ 158,036
Benefit obligations	**243,407**	181,676
Funded status	**(84,311)**	(23,640)
Total accrued cost	**$ (84,311)**	$ (23,640)

Amounts recognized on balance sheet consist of:

	2011	2010
Noncurrent liabilities	**$ (84,311)**	$ (23,640)
	$ (84,311)	$ (23,640)

Amounts recognized in other changes in net assets:

	2011	2010
Net loss	**$ 86,065**	$ 28,278
Prior service cost (credit)	**(277)**	(356)
	$ 85,788	$ 27,922

The accumulated benefit obligation was $241.2 million and $173.4 million at December 31, 2011 and 2010, respectively.

Net periodic benefit cost and other amounts recognized in other changes in net assets (in thousands):

	2011	2010
Net periodic benefit cost	**$ 8,805**	$ 11,146
Other changes in amounts recognized in other changes in net assets:		
Net loss (gain) added during year	**58,480**	(11,798)
Amortization of prior service cost	**79**	79
Amortization of (gain) loss	**(693)**	(1,570)
Total change in unrestricted net assets at end of current year	**57,866**	(13,289)
Total recognized in net periodic benefit cost and other changes in net assets	**$ 66,671**	$ (2,143)

The estimated net loss and prior service cost for the defined benefit pension plan that will be amortized from unrestricted net assets into periodic benefit cost over the next fiscal year are $4.2 million and $79 thousand, respectively.

Additional Information - Assumptions

The assumptions used to determine benefit obligations in the actuarial valuations were as follows:

	2011	2010
Discount rate	**4.50%**	5.75%
Rate of increase in compensation levels	**4.00%**	5.00%

The assumptions used to determine net periodic pension cost were as follows:

	2011	2010
Discount rate	**5.75%**	5.75%
Expected long-term rate of return on assets	**7.75%**	7.75%
Rate of increase in compensation levels	**5.00%**	5.00%

The long-term rate of return on plan assets of 7.75% is based upon management's estimate of future long-term rates of return on similar assets and is consistent with historical returns on such assets.

Plan Assets

Valley Health System's overall investment strategy is to generate a return, which is sufficient to meet its current and expected future financial requirements. The Plan Assets will be structured in a manner that most efficiently matches Valley's investment risk and return characteristics with the long-term objectives. Short-term uncertainties of investment results are recognizable risks, and will be managed appropriately through specific asset allocation strategies and diversification based upon the Plan's investment time horizon. The Plan Asset's target return will be based upon the fund's actuarial review which calculates the "minimum required return" for Valley Health System's and Shenandoah's pension portfolio as well as its investment time horizon.

Cash flows - Contributions

VHS expects to contribute $6 million to its pension plan in 2012.

Estimated Future Benefit Payments

The following benefit payments, which reflect expected future service, as appropriate, are expected to be paid (in thousands):

	Pension Benefits
2012	$ 4,079
2013	$ 4,430
2014	$ 4,751
2015	$ 5,211
2016	$ 5,807
Years 2017 - 2021	$ 43,146

Tax Sheltered Annuity Plan

In addition, VHS also offers an option allowing employees to contribute to a tax sheltered annuity plan (the Annuity Plan) under Internal Revenue Code section 403(b). Under the Annuity Plan, VHS matches 50% of the employees' contributions up to a maximum of 2% for employees who contribute at least 4% of their base compensation. VHS's contributions are 100% vested for employees after six years of service. VHS's contributions to the Annuity Plan totaled $2.8 million and $2.7 million for 2011 and 2010, respectively.

Shenandoah Memorial Hospital Plan

Defined Benefit Retirement Plan

Shenandoah has a noncontributory defined benefit retirement plan Effective January 1, 2003, the Plan was frozen. Participation in the Plan was frozen such that there shall be no new participants in the Plan after December 31, 2002. New employees were eligible to participate in the Valley Health System plans. The Plan was amended effective January 1, 1991 to pay benefits based upon the last five highest year's salary out of the last ten years of service. Prior to this change, benefits were based upon employees' years of service and compensation. Shenandoah makes annual contributions to the plan in accordance with funding requirements determined by an actuary.

The reconciliation of the Plan's funded status to amounts recognized in Shenandoah's financial statements as of December 31 is as follows (in thousands):

Obligations and funded status:

	2011	2010
Fair value of plan assets	$ 12,924	$ 12,232
Benefit obligations	23,439	19,037
Funded status	(10,515)	(6,805)
Total accrued cost	$ (10,515)	$ (6,805)

Amounts recognized on balance sheet consist of:

	2011	2010
Noncurrent liabilities	$ (10,515)	$ (6,805)
	$ (10,515)	$ (6,805)

Amounts recognized in other changes in net assets:

	2011	2010
Net loss	$ 8,188	$ 4,071
	$ 8,188	$ 4,071

The accumulated benefit obligation was $19.7 million and $14.9 million at December 31, 2011 and 2010, respectively.

Net periodic benefit cost and other amounts recognized in other changes in net assets in thousands:

	2011	2010
Net periodic benefit cost	$ 916	$ 1,150
Other changes in amounts recognized in other changes in net assets:		
Net loss (gain) during the year	4,317	(1,282)
Amortization of prior service cost	-	-
Amortization of (gain) loss	(200)	(339)
Total change in unrestricted net assets at the end of the current year	4,117	(1,621)
Total recognized in net periodic benefit cost and other changes in net assets	$ 5,033	$ (471)

The estimated net loss and prior service cost for the defined benefit pension plan that will be amortized from unrestricted net assets into periodic benefit cost over the next fiscal year are $563 thousand and $0, respectively.

Additional Information - Assumptions

The assumptions used to determine benefit obligations in the actuarial valuations were as follows:

	2011	2010
Discount rate	4.50%	5.75%
Rate of increase in compensation levels	4.00%	5.00%

The assumptions used to determine net periodic pension cost were as follows:

	2011	2010
Discount rate	5.75%	5.75%
Expected long-term rate of return on plan assets	7.75%	7.75%
Rate of increase in compensation levels	5.00%	5.00%

The long-term rate of return on plan assets of 7.75% is based upon management's estimate of future long-term rates of return on similar assets and is consistent with historical returns on such assets.

Contributions of $1.3 million and $0 were made in 2011 and 2010, respectively. SMH plans to contribute $899 thousand to the Plan in 2012.

Estimated Future Benefit Payments

The following benefit payments, which reflect expected future service, as appropriate, are expected to be paid (in thousands):

	Pension Benefits
2012	$ 470
2013	$ 487
2014	$ 574
2015	$ 662
2016	$ 780
Years 2017 - 2021	$ 5,279

The following table sets forth by level with the fair value hierarchy, pension plan assets of VHS and SMH at their fair value as of December 31, 2011 and 2010 (in thousands):

		Fair Value Measurements Using:		
	Total at December 31, 2011	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Plan Assets				
Cash and cash equivalents	**$ 18,513**	$ 18,513	$ -	$ -
Common stock				
Healthcare	**788**	788	-	-
Utilities	**110**	110	-	-
Financials	**770**	770	-	-
Consumer staples	**94**	94	-	-
Consumer discretionary	**1,758**	1,758	-	-
Materials	**130**	130	-	-
Energy	**725**	725	-	-
Information technology	**1,637**	1,637	-	-
Industrials	**1,027**	1,027	-	-
Telecommunications	**225**	225	-	-
ADRs	**762**	762	-	-
Miscellaneous	**141**	141	-	-
	8,167	8,167	-	-
Mutual and other funds				
Bond funds	**29,823**	29,823	-	-
Collective equity funds	**893**	-	-	893
Mutual equity funds	**46,673**	39,456	7,217	-
Balanced funds	**23,680**	23,680	-	-
	101,069	92,959	7,217	893
Private equity	**9,846**	-	-	9,846
Limited partnerships	**34,425**	-	-	34,425
	$ 172,020	$ 119,639	$ 7,217	$ 45,164

		Fair Value Measurements Using:		
	Total at December 31, 2010	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Plan Assets				
Cash and cash equivalents	$ 14,131	$ 14,131	$ -	$ -
Common stock				
Healthcare	1,142	1,142	-	-
Financials	1,479	1,479	-	-
Consumer staples	83	83	-	-
Consumer discretionary	2,296	2,296	-	-
Materials	138	138	-	-
Energy	593	593	-	-

	Total at December 31, 2010	Fair Value Measurements Using: Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Information technology	1,612	1,612	-	-
Industrials	1,426	1,426	-	-
Telecommunications	406	406	-	-
ADRs	680	680	-	-
	9,855	9,855	-	-
Mutual and other funds				
Bond funds	28,708	28,708	-	-
Collective equity funds	13,624	-	-	13,624
Mutual equity funds	45,873	45,873	-	-
Balanced funds	22,354	22,354	-	-
	110,559	96,935	-	13,624
Private equity	3,085	-	-	3,085
Limited partnerships	32,638	-	7,090	25,548
	$ 170,268	$ 120,921	$ 7,090	$ 42,257

Level 3 Investments

Activity related to Level 3 investments which include investments and assets limited as to use is as follows (in thousands):

	2011	2010
Balance, beginning of year	**$ 42,257**	$ 40,033
Additions	**19,405**	5,097
Distributions	**(18,677)**	(5,108)
Investment income	**869**	246
Unrealized gains/(losses)	**1,310**	1,989
Balance, end of year	**$ 45,164**	$ 42,257

Note 13. Functional Expenses

VHS provides general health care services to residents within its geographic location. Expenses related to providing these services by functional category are as follows (in thousands):

	Healthcare Services	Fund Raising	Administrative and General Services	Total
2011	**$ 427,879**	**$ 739**	**$ 226,272**	**$ 654,890**
2010	$ 411,686	$ 798	$ 216,281	$ 628,765

Note 14. Assets Held in Trust

At December 31, 2011 and 2010, the market value of the assets of the Frank Newcomer Hack Trust, which are recorded in assets limited as to use, totaled approximately $2.2 million. Distributions of income from the trust are made quarterly by the trustees in accordance with the terms of the governing will. Quarterly payments of income will continue to be made to VHS as long as VHS operates for the purpose for which it was originally incorporated. Income distributed to VHS amounted to $40 thousand in 2011 and $42 thousand in 2010.

The Medical Center is also the beneficiary of other trusts. The assets of the trusts are held by the Winchester Medical Center Foundation for the benefit of the Medical Center. Following are the values of the trusts as of December 31, 2011 and 2010, and income received from the trusts for the years then ended (in thousands):

	2011		2010	
	Fair Value	Income	Fair Value	Income
Sallie L. Hoover Trust	$ 280	$ 12	$ 312	$ 10
Shirley Carter Compassionate Care Trust	149	6	160	5
Anna Stine Trust	132	6	145	1
Letitia Kerns Trust	82	4	89	1
Stewart Bell Trust	66	1	72	1
	$ 709	$ 29	$ 778	$ 18

Shenandoah Memorial Hospital is also the beneficiary of trusts. The Albright trust has a fair value of approximately $304 and $305 thousand at December 31, 2011 and 2010, respectively. The Burgess Nelson trust has a fair value of approximately $2 million at December 31, 2011 and 2010.

Note 15. Lessor Leasing Activities and Sale of Rental Space

VHS leases space under operating leases with remaining terms of one to eight years. Rental income recognized from leases was $4.5 million in 2011 and $4.6 million in 2010. Future minimum rental income is as follows (in thousands):

2012	$ 3,936
2013	2,758
2014	2,346
2015	2,166
2016	1,543
Thereafter	2,065
Total future minimum rental income	$ 14,814

Note 16. Lessee Lease Commitment and Total Rental Expense

VHS leases office and medical space under long-term operating lease arrangements that expire at various dates. Total rental expense for all operating leases was $2.8 million and $2.5 million for 2011 and 2010, respectively VHS is obligated under the operating leases, that have initial or remaining lease terms in excess of one year, to make future minimum lease payments as follows for the year ended December 31, 2011 (in thousands):

2012	$ 2,092
2013	1,338
2014	878
2015	768
2016	461
Thereafter	5,272
Total future minimum lease payments	$ 10,809

Note 17. Related Party Transactions and Subsequent Event

Medical Circle, LLC

VHS is a 51% member of Medical Circle, LLC t/a Valley Open MRI, a company formed to provide imaging services. In July 2009, the company began leasing space in the Hurst House, which is located on the campus of the Medical Center. In preparing the space for the joint venture, VHS incurred expenditures of $878 thousand of which $538 thousand was a capital contribution and $340 thousand was treated as a loan to Medical Circle with an interest rate of 4.6%. The loan was paid in full in January 2010.

Valley Health System is accounting for its investment under the equity method of accounting. Valley Health System's interest in the Company was $714 thousand and $924 thousand, at December 31, 2011 and 2010, respectively. Included in other operating revenue in the Consolidated Statement of Operations are equity earnings on the investment of approximately $734 thousand and $895 thousand for the years ended December 31, 2011 and 2010, respectively. Total cash distributions received from the investment by VHS in 2011 and 2010 were approximately $943 thousand and $910, respectively. Medical Circle's financial statements were not consolidated in the financial statements of VHS due to immateriality.

Winchester Open MRI, LLC

VHS is a member, owning a 50% interest, in Winchester Open MRI, LLC (Open MRI), a company formed to benefit the community by providing more accessible imaging services. Valley Health System is accounting for its investment under the equity method of accounting. Valley Health System's interest in Open MRI was $838 thousand and $515 thousand, at December 31, 2011 and 2010, respectively. Included in other operating revenue in the Consolidated Statement of Operations are equity earnings on the investment of approximately $3 million and $2.6 million for the years ended December 31, 2011 and 2010, respectively. Total cash distributions received from the investment by VHS in 2011 and 2010 were approximately $2.8 million and $2.55 million, respectively.

Tri-State Surgical Center, LLC

Effective January 1, 2012, VRE is a member, owning a 34% interest, in Tri-State Surgical Center, LLC (Tri-State). VRE's capital contribution is $2.7 million. Tri-State is an ambulatory surgical facility in Martinsburg, West Virginia. VRE will be accounting for its investment under the equity method of accounting.

Note 18. Commitments and Contingencies

Malpractice Insurance

During 2004, VHS and other healthcare organizations participated in the development of Virginia Solutions SPC LTD (the Captive), an insurance company located in the Cayman Islands. VHS was one of five founding members of the Captive. The Captive qualifies as a captive insurance company in the domicile where it operates and provides certain insurance coverage to its members. The Captive has established trusts for professional and general liability insurance. Under this program, the Captive retains the first $750 thousand per claim. The Captive has purchased reinsurance contracts to provide for claims in excess of $750 thousand. VHS is charged periodic premiums by the Captive. Premiums are determined based on actuarial calculations, and information provided by risk managers, legal counsel and past experience. The effective date of this program was July 15, 2004.

Litigation

VHS is involved in litigation arising in the ordinary course of business. Claims alleging malpractice have been asserted against VHS and are currently in various stages of litigation. It is the opinion of management, however, that estimated malpractice costs accrued at December 31, 2011 are adequate to provide for potential losses resulting from pending or threatened litigation as well as claims arising from unknown incidents from services provided to patients that may be asserted.

Loan Guarantee

VHS has guaranteed certain debt obligations from a local bank to Winchester Open MRI, LLC, an affiliated entity, for approximately $2 million. The proceeds of the loans were used to purchase equipment and fund a construction project. The balance of the loans at December 31, 2011 and 2010 was $214 thousand and $523 thousand, respectively.

Medical Staff Deferred Compensation Plan

Effective January 1, 2006, VHS adopted a nonqualified deferred compensation plan under Internal Revenue Service Code Section 457, to provide compensation for unassigned call services provided by participating physicians at the Medical Center. VHS, as the Plan sponsor, is responsible for funding the Plan based upon predetermined levels of payment which was $3 million in 2011 and $3.2 million in 2010. VHS is also responsible for maintaining a trust in which the contributions to the Plan will be maintained and from which qualifying disbursements will be made. Contributions to the Plan vest to the benefit of the participating physicians under various methods based upon years in the Plan and/or age. VHS recognizes, for financial reporting purposes, the related trust assets and a corresponding liability. The Plan allows VHS to modify future payments to the Plan based on a variety of operating factors at the discretion of the Board of the Medical Center. Due to physicians becoming fully vested in 2011, and payouts being anticipated, approximately $14.4 million was reclassified to other current liabilities in the Consolidated Balance sheets at December 31, 2010.

Asset Retirement Obligation

The *Asset Retirement and Environmental Obligations* Topic 410 of the FASB Accounting Standards Codification, clarifies when an entity is required to recognize a liability for a conditional asset retirement obligation. Management has considered this Topic, specifically as it relates to its legal obligations to perform asset retirement activities, such as asbestos removal, on its existing properties. Management of VHS believes that there is an indeterminate settlement date for the asset retirement obligations because the range of time over which VHS may settle the obligations is unknown and cannot be estimated. As a result, management cannot reasonably estimate a liability related to these potential asset retirement activities. However, management does not believe that remediation of such obligations will have a material effect on the consolidated financial statements.

Note 19. Fair Value Disclosures

Fair Value Measurements

The *Fair Value Measurements and Disclosures* Topic 820 of the FASB Accounting Standards Codification defines fair value, establishes a framework for measuring fair value and expands disclosures about fair value measurements.

Under the FASB's authoritative guidance on fair value measurements, fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. In determining fair value, VHS uses various methods including market, income and cost approaches. Based on these approaches, VHS often utilizes certain assumptions that market participants would use in pricing the asset or liability, including assumptions about risk and or the risks inherent in the inputs to the valuation technique. These inputs can be readily observable, market corroborated, or generally unobservable inputs. VHS utilizes valuation techniques that maximize the use of observable inputs and minimize the use of unobservable inputs. Based on the observability of the inputs used in the valuation techniques VHS is required to provide the following information according to the fair value hierarchy. The fair value hierarchy ranks the quality and reliability of the information used to determine fair value. Financial assets and liabilities carried at fair value will be classified and disclosed in one of the following three categories:

- Level 1 – Quoted prices for identical assets and liabilities traded in active exchange markets, such as the New York Stock Exchange.

- Level 2 – Observable inputs other than Level 1 including quoted prices for similar assets or liabilities, quoted prices in less active markets, or other observable inputs that can be corroborated by observable market data. Level 2 also includes derivative contracts whose value is determined using a pricing model with observable market inputs or can be derived principally from or corroborated by observable market data.

- Level 3 – Unobservable inputs supported by little or no market activity for financial instruments whose value is determined using pricing models, discounted cash flow methodologies, or similar techniques, as well as instruments for which the determination of fair value requires significant management judgment or estimation, also includes observable inputs for nonbinding single dealer quotes not corroborated by observable market data.

The following is a description of the valuation methodologies used for instruments measured at fair value.

Equity Securities

The fair value of equity securities is the market value based on quoted market prices, when available, or market prices provided by recognized broker dealers. If listed prices or quotes are not available, fair value is based upon externally developed models that use unobservable inputs due to the limited market activity of the instrument.

Mutual and Other Funds

Valued at the quoted net asset value (NAV) of shares held at year end.

U.S. Government Obligations

Valuation inputs utilized by the independent pricing service for those U.S. Government securities under Level 2 include benchmark yields, reporting trades, broker/dealer quotes, issuer spreads, benchmark securities, bids, offers, and reference data including market research publications. Also included are data from the vendor trading platform.

Real Estate Investments

The underlying holdings are periodically valued by appraisers considering the current market conditions. Inputs are often unobservable, and therefore, these are level 3 investments.

Partnerships and Ventures
Valuation is determined using an ownership percentage multiplied by the net assets of the partnership or joint venture.

Derivative Instruments
Derivatives are fair valued according to their classification as over-the-counter ("OTC"). OTC derivatives consist of interest rate swaps. These derivatives are fair valued under Level 2 using third-party services. Observable market inputs include yield curves (the LIBOR swap curve and applicable basis swap curves), foreign exchange rates, commodity prices, option volatilities, counterparty credit risk, and other related data. Credit valuation adjustments are required to reflect both our own nonperformance risk and the respective counterparty's nonperformance risk. These adjustments are determined generally by applying a credit spread for the counterparty or VHS as appropriate to the total expected exposure of the derivative.

Fair Value on a Recurring Basis

The tables below present the recorded amount of assets measured at fair value on a recurring basis (in thousands).

	Total at December 31,	Fair Value Measurements Using:		
ASSETS:	**2011**	Level 1	Level 2	Level 3
Investments and Assets Limited as to Use				
Cash and cash equivalents	**$ 40,634**	$ 39,534	$ 1,100	$ -
Common stock				
Healthcare	**1,742**	1,742	-	-
Utilities	**237**	237	-	-
Financials	**1,664**	1,664	-	-
Consumer staples	**203**	203	-	-
Consumer discretionary	**3,804**	3,804	-	-
Materials	**281**	281	-	-
Energy	**1,565**	1,565	-	-
Information technology	**3,836**	3,836	-	-
Industrials	**2,222**	2,222	-	-
Telecommunications	**487**	487	-	-
ADRs	**1,647**	1,647	-	-
Total common stock	**17,688**	17,688	-	-
Mutual and other funds				
Bond funds	**91,801**	82,106	9,695	-
Collective equity funds	**1,858**	-	-	1,858
Mutual equity funds	**91,685**	88,753	2,932	-
Balanced funds	**44,905**	44,464	441	-
Other fixed income	**1,201**	1,201	-	-
Real estate funds	**57**	57	-	-
	231,507	216,581	13,068	1,858
Auction rate securities	**200**	-	-	200
U.S. government obligations	**3,841**	3,841	-	-
Life insurance/annuity	**2,065**	2,065	-	-
Private realty investments	**29,660**	-	-	29,660
Limited partnership investments	**63,869**	-	-	63,869
Ventures and partnerships – operating	**8,512**	-	-	8,512
	$ 397,976	$ 279,709	$ 14,168	$ 104,099

VALLEY HEALTH SYSTEM AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

ASSETS:	Total at December 31, 2011	Fair Value Measurements Using. Level 1	Level 2	Level 3
Liabilities:				
Derivative Financial Instruments	**$ (39,121)**	$ -	$ (39,121)	$ -

ASSETS:	Total at December 31, 2010	Fair Value Measurements Using Level 1	Level 2	Level 3
Investments and Assets Limited as to Use				
Cash and cash equivalents	**$ 72,994**	$ 72,994	$ -	$ -
Common stock				
Healthcare	**2,259**	2,259	-	-
Financials	**2,924**	2,924	-	-
Consumer staples	**163**	163	-	-
Consumer discretionary	**4,541**	4,541	-	-
Materials	**273**	273	-	-
Energy	**1,175**	1,175	-	-
Information technology	**3,189**	3,189	-	-
Industrials	**2,819**	2,819	-	-
Telecommunications	**803**	803	-	-
ADRs	**1,344**	1,344	-	-
Total common stock	**19,490**	19,490	-	-
Mutual and other funds				
Bond funds	**127,268**	127,268	-	-
Collective equity funds	**38,235**	-	-	38,235
Mutual equity funds	**94,419**	82,782	11,637	-
Balanced funds	**44,296**	41,867	2,429	-
Other fixed income	**5,451**	-	5,451	
Real estate funds	**69**	69	-	-
	309,738	251,986	19,517	38,235
Auction rate securities	**400**	-	-	400
U.S. government obligations	**3,840**	3,840	-	-
Life insurance/annuity	**1,772**	1,689	83	-
Private realty investments	**16,225**	-	-	16,225
Limited partnership investments	**55,150**	-	3,437	51,713
Ventures and partnerships – operating	**8,316**	-	-	8,316
	$ 487,925	$ 349,999	$ 23,037	$ 114,889
Liabilities:				
Derivative Financial Instruments	**$ (19,717)**	$ -	$ (19,717)	$ -

Assets Recorded at Fair Value on a Nonrecurring Basis

VHS has no assets or liabilities that are recorded at fair value on a nonrecurring basis.

Level 3 Investments

Activity related to Level 3 investments which include investments and assets limited as to use is as follows (in thousands):

	2011	2010
Balance, beginning of year	$ 114,889	$ 110,163
Additions	14,754	15,514
Distributions	(35,511)	(17,735)
Investment income included in excess of revenues over expenses, net	5,475	3,835
Unrealized gains/(losses) excluded from excess of revenues over expenses	4,492	3,112
Balance, end of year	$ 104,099	$ 114,889

The following methods and assumptions were used by VHS in estimating the fair value of each class of its financial instruments for which it is practicable to estimate that value:

Cash and cash equivalents: The carrying amount approximates fair value because of the short-term maturity of those instruments.

Patient accounts receivable: The carrying amount approximates fair value.

Estimated third-party payor settlement: The carrying amount approximates fair value.

Long-term debt: The fair values of bonds payable are based on quoted market prices for the same or similar issues.

Derivative financial instruments: The carrying amount of derivative financial instruments, interest rate swap agreements, are reported at fair value and recorded in other long-term liabilities.

The following table presents estimated fair values of VHS's financial instruments at December 31, 2011 and 2010 (in thousands).

	2011		2010	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Cash and cash equivalents	$ 48,569	$ 48,569	$ 50,632	$ 50,632
Patient accounts receivable	$ 94,713	$ 94,713	$ 81,097	$ 81,097
Other current assets	$ 11,652	$ 11,652	$ 11,051	$ 11,051
Investments and assets limited as to use	$ 389,464	$ 389,464	$ 479,609	$ 479,609
Third party settlements	$ (1,367)	$ (1,367)	$ 875	$ 875
Long-term debt	$ (393,696)	$ (395,680)	$ (403,082)	$ (390,375)
Derivative financial instruments	$ (39,121)	$ (39,121)	$ (19,717)	$ (19,717)

Note 20. Hampshire Wellness Center

On June 19, 2006, East Mountain Health Advantage entered into a long-term lease agreement to lease and operate a 60,000 square foot wellness center. The lease agreement with the Hampshire County Development Authority is for a period of 20 years at $162 thousand per year plus all operating expenses of the facility and operations. In 2008, Hampshire Wellness Center, Inc. was established to operate the wellness center and assume responsibility for the lease. East Mountain Health Advantage became the sole corporate member of Hampshire Wellness Center, Inc.

The lease agreement contains a purchase option at the end of the lease term with the purchase price based upon the original cost of the facility less the sum of the lease payments made, 80% of operating losses not to exceed $2 million, and cost of improvements, not to exceed $150 thousand.

Note 21. Page Memorial Hospital and Commitment

VHS has committed to assist Page in building a new hospital with an estimated cost of $30 million with a targeted completion date in 2014. VHS will assist Page with obtaining a certificate of public need and financing. If a new hospital cannot be built because of regulatory or reimbursement issues, VHS has committed to assist Page with major renovations to the hospital facility of approximately $5 million per year in 2011, 2012, and 2013.

Note 22. Morgan County War Memorial Hospital Acquisition and Commitment

On April 1, 2010 War Memorial Hospital, Inc., a newly formed subsidiary of Valley Health System, purchased substantially all of the assets and assumed substantially all liabilities of Morgan County War Memorial Hospital. The purchase price was $1.5 million in addition to the liabilities assumed which approximated $4 million.

The agreement includes a commitment to construct a replacement facility expected to cost approximately $30 million. The new facility is expected to be completed in 2012. The agreement also includes a commitment to operate the current facility until the replacement facility is complete and to lease the existing facility for $685 thousand annually.

The following is a summary of the opening balance sheet of War as of April 1, 2010 (in thousands):

Current assets	$	4,092
Property and equipment, net		4,892
Other assets		3
Total assets	$	8,987
Current liabilities	$	2,565
Net assets		6,422
Total liabilities and net assets	$	8,987

The effect of the transaction at April 1, 2010 was to increase consolidated net assets of VHS by approximately $6.4 million.

VALLEY HEALTH SYSTEM AND SUBSIDIARIES

CONSOLIDATED SCHEDULE – BALANCE SHEET INFORMATION (IN THOUSANDS)
December 31, 2011

ASSETS	Valley Health System	Winchester Medical Center and Subsidiary	Valley Regional Enterprises	Surgi-Center of Winchester	Warren Memorial Hospital and Subsidiary	Shenandoah Memorial Hospital and Subsidiary
Current assets						
Cash and cash equivalents	$ 2,997	$ 17,675	$ 871	$ 8,193	$ 8,843	$ 7,442
Investments	-	222,962	-	10,732	5,540	2,548
Assets limited as to use	-	13,903	-	-	-	-
Patient accounts receivable, net	-	62,765	4,723	950	7,578	5,700
Due from related entities	26,577	3,621	-	-	35	5
Inventory of supplies	1,586	9,222	1,599	408	862	591
Other current assets	3,851	5,941	759	19	209	174
Total current assets	35,011	336,089	7,952	20,302	23,067	16,460
Assets limited as to use, noncurrent	1,782	127,270	-	-	1,275	2,549
Property and equipment, net	2,700	446,193	2,451	4,500	42,449	33,789
Other assets						
Deferred financing costs, net	-	4,245	-	-	-	-
Goodwill	-	-	-	-	-	-
Investments	7,422	130	667	-	57	48
Investments in wholly owned subsidiaries	584,764	-	-	-	-	-
Total other assets	592,186	4,375	667	-	57	48
Total assets	$ 631,679	$ 913,927	$ 11,070	$ 24,802	$ 66,848	$ 52,846

East Mountain Health Advantage and Subsidiaries	War Memorial Hospital	Page Memorial Hospital and Subsidiary	Valley Physician Enterprise	Subtotal	Eliminations	Consolidated
$ 125	$ 226	$ 1,825	$ 372	$ 48,569	$ -	$ 48,569
-	-	-	-	241,782	-	241,782
-	-	-	-	13,903	-	13,903
2,864	2,408	3,847	3,878	94,713	-	94,713
-	-	-	-	30,238	(30,238)	-
202	178	281	-	14,929	-	14,929
121	252	141	185	11,652	-	11,652
3,312	3,064	6,094	4,435	455,786	(30,238)	425,548
683	77	92	51	133,779	-	133,779
35,804	31,936	12,801	1,605	614,228	-	614,228
679	-	-	-	4,924	-	4,924
4,400	-	-	-	4,400	-	4,400
80	80	28	-	8,512	-	8,512
-	-	-	-	584,764	(584,764)	-
5,159	80	28	-	602,600	(584,764)	17,836
$ 44,958	$ 35,157	$ 19,015	$ 6,091	$ 1,806,393	$ (615,002)	$ 1,191,391

VALLEY HEALTH SYSTEM AND SUBSIDIARIES

CONSOLIDATING SCHEDULE – BALANCE SHEET INFORMATION (IN THOUSANDS), Continued
December 31, 2011

LIABILITIES AND NET ASSETS	Valley Health System	Winchester Medical Center and Subsidiary	Valley Regional Enterprises	Surgi-Center of Winchester	Warren Memorial Hospital and Subsidiary	Shenandoah Memorial Hospital and Subsidiary
Current liabilities						
Current installments of long-term debt	$ -	$ 8,900	$ 4,150	$ -	$ -	$ -
Accounts payable and accrued expenses	28,684	14,879	1,351	173	865	828
Accrued salaries and wages	21,245	-	-	-	-	-
Third-party settlements	-	(1,123)	-	-	(623)	775
Due to related entities	-	15,115	627	206	1,756	2,257
Other current liabilities	123	598	-	-	8	53
Total current liabilities	50,052	38,369	6,128	379	2,006	3,913
Long-term debt, excluding current installments	-	321,295	-	-	26,388	10,718
Accrued pension and post retirement obligations	-	84,311	-	-	-	10,515
Other liabilities	1,036	44,237	288	-	1,090	523
Total liabilities	51,088	488,212	6,416	379	29,484	25,669
Net assets:						
Unrestricted	563,108	412,521	4,654	24,423	36,033	24,269
Temporarily restricted	13,083	9,108	-	-	1,321	2,654
Permanently restricted	4,400	4,086	-	-	10	254
Total net assets	580,591	425,715	4,654	24,423	37,364	27,177
Total liabilities and net assets	$ 631,679	$ 913,927	$ 11,070	$ 24,802	$ 66,848	$ 52,846

East Mountain Health Advantage and Subsidiaries	War Memorial Hospital	Page Memorial Hospital and Subsidiary	Valley Physician Enterprise	Subtotal	Eliminations	Consolidated
$ 954	$ -	$ 346	$ -	$ 14,350	$ (4,150)	$ 10,200
1,226	2,127	700	742	51,575	-	51,575
-	-	-	-	21,245	-	21,245
905	1,583	(150)	-	1,367	-	1,367
1,789	1,742	1,639	957	26,088	(26,088)	-
19	1	-	-	802	-	802
4,893	5,453	2,535	1,699	115,427	(30,238)	85,189
25,000	-	95	-	383,496	-	383,496
-	-	-	-	94,826	-	94,826
-	22	42	51	47,289	-	47,289
29,893	5,475	2,672	1,750	641,038	(30,238)	610,800
15,065	29,682	16,293	4,341	1,130,389	(567,281)	563,108
-	-	-	-	26,166	(13,083)	13,083
-	-	50	-	8,800	(4,400)	4,400
15,065	29,682	16,343	4,341	1,165,355	(584,764)	580,591
$ 44,958	$ 35,157	$ 19,015	$ 6,091	$ 1,806,393	$ (615,002)	$ 1,191,391

VALLEY HEALTH SYSTEM AND SUBSIDIARIES

CONSOLIDATING SCHEDULE – OPERATING INFORMATION (IN THOUSANDS)
Year Ended December 31, 2011

	Valley Health System	Winchester Medical Center and Subsidiary	Valley Regional Enterprises	Surgi-Center of Winchester	Warren Memorial Hospital and Subsidiary	Shenandoah Memorial Hospital and Subsidiary
Unrestricted revenues, gains and other support						
Patient service revenue, gross and charity care	$ -	$ 849,672	$ 49,312	$ 17,251	$ 111,649	$ 84,775
Charity care	-	(40,230)	-	(431)	(9,767)	(5,557)
Contractual adjustments	-	(336,885)	(18,526)	(5,651)	(39,392)	(33,702)
Provision for uncollectible accounts	-	(29,367)	(1,531)	(280)	(6,240)	(5,066)
Net patient service revenue	-	443,190	29,255	10,889	56,250	40,450
Other operating revenue	82,704	12,956	6	19	1,667	1,275
Investment income, net	68	17,490	-	675	351	129
Gifts and bequests	-	125	-	-	25	102
Net assets released from restrictions	-	465	-	-	59	165
Total revenues, gains and other support	82,772	474,226	29,261	11,583	58,352	42,121
Expenses						
Salaries and wages	39,653	140,862	10,067	2,759	23,013	15,024
Payroll taxes and benefits	10,622	33,586	2,391	779	5,797	4,435
Supplies and other	33,239	144,487	14,225	4,249	19,771	14,745
Corporate management fees	-	45,743	3,311	714	5,832	4,153
VPE allocation	-	7,483	-	-	1,523	4,666
Depreciation and amortization	-	32,033	709	539	3,050	2,393
Interest expense	-	8,003	210	-	1,210	492
Total expenses	83,514	412,197	30,913	9,040	60,196	45,908
Excess (deficit) of revenues over expenses	(742)	62,029	(1,652)	2,543	(1,844)	(3,787)
Other changes in net assets						
Intercompany transfers, net	1,883	(62,164)	1,983	536	5,897	7,780
Net unrealized loss on investments	-	(18,257)	-	(972)	(503)	(136)
Change in value of derivatives	-	(19,855)	-	-	321	130
Change in pension plan funded status	-	(57,866)	-	-	-	(4,117)
Earnings in equity of wholly-owned Subsidiaries	(51,102)	-	-	-	-	-
Other changes	-	-	-	-	-	(3)
Increase (decrease) in unrestricted net assets	$ (49,961)	$ (96,113)	$ 331	$ 2,107	$ 3,871	$ (133)

East Mountain Health Advantage and Subsidiaries	War Memorial Hospital	Page Memorial Hospital and Subsidiary	Valley Physician Enterprise	Subtotal	Eliminations	Consolidated
$ 27,369	$ 25,408	$ 51,497	$ 41,156	$ 1,258,089	$ -	$ 1,258,089
(2,025)	(1,044)	(2,711)	(1,634)	(63,399)	-	(63,399)
(9,786)	(5,949)	(24,391)	(17,906)	(492,188)	-	(492,188)
(1,169)	(826)	(3,940)	(1,531)	(49,950)	-	(49,950)
14,389	17,589	20,455	20,085	652,552	-	652,552
386	100	534	17,614	117,261	(83,098)	34,163
-	6	18	-	18,737	(209)	18,528
-	3	-	-	255	-	255
-	-	-	-	689	-	689
14,775	17,698	21,007	37,699	789,494	(83,307)	706,187
6,387	7,520	10,040	23,604	278,929	-	278,929
1,548	1,782	1,892	3,811	66,643	-	66,643
6,524	6,280	5,390	10,110	259,020	(1,791)	257,229
1,362	1,900	1,991	2,359	67,365	(67,365)	-
-	-	270	-	13,942	(13,942)	-
1,377	214	1,028	256	41,599	-	41,599
750	-	34	-	10,699	(209)	10,490
17,948	17,696	20,645	40,140	738,197	(83,307)	654,890
(3,173)	2	362	(2,441)	51,297	-	51,297
15,224	23,061	1,763	4,037	-	-	-
-	-	-	-	(19,868)	-	(19,868)
-	-	-	-	(19,404)	-	(19,404)
-	-	-	-	(61,983)	-	(61,983)
-	-	-	-	(51,102)	51,102	-
-	-	-	-	(3)	-	(3)
$ 12,051	$ 23,063	$ 2,125	$ 1,596	$ (101,063)	$ 51,102	$ (49,961)

VALLEY HEALTH SYSTEM AND SUBSIDIARIES

CONSOLIDATED SCHEDULE – BALANCE SHEET INFORMATION (IN THOUSANDS)
December 31, 2010

ASSETS	Valley Health System	Winchester Medical Center and Subsidiary	Valley Regional Enterprises	Surgi-Center of Winchester	Warren Memorial Hospital and Subsidiary	Shenandoah Memorial Hospital and Subsidiary
Current assets						
Cash and cash equivalents	$ 4,194	$ 20,194	$ 1,267	$ 5,788	$ 4,534	$ 8,060
Investments	-	232,842	-	11,029	5,694	2,449
Assets limited as to use	-	27,073	-	-	-	-
Patient accounts receivable, net	-	53,187	4,286	991	6,827	5,103
Third-party settlements	-	1,648	-	-	818	(782)
Due from related entities	22,367	17,596	-	-	1	-
Inventory of supplies	1,447	8,707	1,356	390	888	523
Other current assets	5,773	2,862	721	42	424	330
Total current assets	33,781	364,109	7,630	18,240	19,186	15,683
Assets limited as to use, noncurrent	1,225	185,423	-	-	1,517	2,515
Property and equipment, net	-	388,294	2,198	4,366	42,912	28,719
Other assets						
Deferred financing costs, net	-	4,476	-	-	-	-
Goodwill	-	-	-	-	-	-
Investments	6,092	1,136	646	-	53	42
Investments in wholly owned subsidiaries	635,344	-	-	-	-	-
Total other assets	641,436	5,612	646	-	53	42
Total assets	$ 676,442	$ 943,438	$ 10,474	$ 22,606	$ 63,668	$ 46,959

East Mountain Health Advantage and Subsidiaries	War Memorial Hospital	Page Memorial Hospital and Subsidiary	Valley Physician Enterprise	Subtotal	Eliminations	Consolidated
$ 804	$ 1,667	$ 3,856	$ 268	$ 50,632	$ -	$ 50,632
-	-	-	-	252,014	-	252,014
-	-	-	-	27,073	-	27,073
2,010	3,426	2,689	2,578	81,097	-	81,097
(657)	311	(395)	(68)	875	-	875
-	-	-	-	39,964	(39,964)	-
141	169	311	-	13,932	-	13,932
175	91	232	401	11,051	-	11,051
2,473	5,664	6,693	3,179	476,638	(39,964)	436,674
8,378	35	1,333	96	200,522	-	200,522
26,303	13,428	7,803	1,205	515,228	-	515,228
700	-	-	-	5,176	-	5,176
4,500	-	-	-	4,500	-	4,500
163	163	21	-	8,316	-	8,316
-	-	-	-	635,344	(635,344)	-
5,363	163	21	-	653,336	(635,344)	17,992
$ 42,517	$ 19,290	$ 15,850	$ 4,480	$ 1,845,724	$ (675,308)	$ 1,170,416

VALLEY HEALTH SYSTEM AND SUBSIDIARIES

CONSOLIDATING SCHEDULE – BALANCE SHEET INFORMATION (IN THOUSANDS), Continued
December 31, 2010

LIABILITIES AND NET ASSETS	Valley Health System	Winchester Medical Center and Subsidiary	Valley Regional Enterprises	Surgi-Center of Winchester	Warren Memorial Hospital and Subsidiary	Shenandoah Memorial Hospital and Subsidiary
Current liabilities						
Current installments of long-term debt	$ -	$ 8,400	$ 4,614	$ -	$ -	$ -
Accounts payable and accrued expenses	26,197	13,893	1,052	149	920	410
Accrued salaries and wages	19,351	-	-	-	-	-
Due to related entities	-	10,253	447	141	1,434	973
Other current liabilities	111	14,769	-	-	10	72
Total current liabilities	45,659	47,315	6,113	290	2,364	1,455
Long-term debt, excluding current installments	-	330,623	-	-	26,388	10,718
Accrued pension and post retirement obligations	-	23,640	-	-	-	6,805
Other liabilities	757	20,613	38	-	1,401	638
Total liabilities	46,416	422,191	6,151	290	30,153	19,616
Net assets:						
Unrestricted	613,069	508,634	4,323	22,316	32,162	24,402
Temporarily restricted	12,355	8,431	-	-	1,353	2,571
Permanently restricted	4,602	4,182	-	-	-	370
Total net assets	630,026	521,247	4,323	22,316	33,515	27,343
Total liabilities and net assets	$ 676,442	$ 943,438	$ 10,474	$ 22,606	$ 63,668	$ 46,959

East Mountain Health Advantage and Subsidiaries	War Memorial Hospital	Page Memorial Hospital and Subsidiary	Valley Physician Enterprise	Subtotal	Eliminations	Consolidated
$ 1,164	$ -	$ 347	$ -	$ 14,525	$ (4,614)	$ 9,911
2,034	3,107	200	667	48,629	-	48,629
-	-	-	-	19,351	-	19,351
11,284	9,236	614	972	35,354	(35,354)	-
21	1	-	-	14,984	-	14,984
14,503	12,344	1,161	1,639	132,843	(39,968)	92,875
25,000	-	442	-	393,171	-	393,171
-	310	-	-	30,755	-	30,755
-	17	29	96	23,589	-	23,589
39,503	12,671	1,632	1,735	580,358	(39,968)	540,390
3,014	6,619	14,168	2,745	1,231,452	(618,383)	613,069
-	-	-	-	24,710	(12,355)	12,355
-	-	50	-	9,204	(4,602)	4,602
3,014	6,619	14,218	2,745	1,265,366	(635,340)	630,026
$ 42,517	$ 19,290	$ 15,850	$ 4,480	$ 1,845,724	$ (675,308)	$ 1,170,416

VALLEY HEALTH SYSTEM AND SUBSIDIARIES

CONSOLIDATING SCHEDULE – OPERATING INFORMATION (IN THOUSANDS)
Year Ended December 31, 2010

	Valley Health System	Winchester Medical Center and Subsidiary	Valley Regional Enterprises	Surgi-Center of Winchester	Warren Memorial Hospital and Subsidiary	Shenandoah Memorial Hospital and Subsidiary
Unrestricted revenues, gains and other support						
Patient service revenue, gross and charity care	$ -	$ 808,899	$ 41,099	$ 17,274	$ 98,561	$ 79,272
Charity care	-	(43,637)	-	(432)	(8,453)	(4,989)
Contractual adjustments	-	(302,342)	(13,495)	(5,825)	(31,373)	(28,505)
Provision for uncollectible accounts	-	(25,859)	(1,613)	(191)	(6,176)	(4,201)
Net patient service revenue	-	437,061	25,991	10,826	52,559	41,577
Other operating revenue	78,496	12,594	48	31	1,777	1,466
Investment income, net	88	8,539	1	460	244	215
Gifts and bequests	-	127	-	-	50	-
Net assets released from restrictions	-	775	-	-	44	96
Total revenues, gains and other support	78,584	459,096	26,040	11,317	54,674	43,354
Expenses						
Salaries and wages	37,804	137,162	8,762	2,772	22,802	15,529
Payroll taxes and benefits	9,846	31,996	2,213	718	5,462	4,525
Supplies and other	31,439	147,600	12,467	4,137	18,544	15,222
Corporate management fees	-	44,009	3,228	876	5,775	4,049
VPE allocation	-	5,269	-	-	1,372	3,120
Depreciation and amortization	-	31,529	825	121	2,930	2,251
Interest expense	-	8,427	212	-	1,223	496
Total expenses	79,089	405,992	27,707	8,624	58,108	45,192
Excess (deficit) of revenues over expenses	(505)	53,104	(1,667)	2,693	(3,434)	(1,838)
Other changes in net assets						
Intercompany transfers, net	(9,425)	(21,123)	1,921	657	5,703	6,157
Net unrealized gain on investments	-	15,497	-	960	492	215
Change in value of derivatives	-	(6,406)	-	-	(837)	(348)
Change in pension plan funded status	-	13,289	-	-	-	1,654
Acquisition of War	-	-	-	-	-	-
Earnings in equity of wholly-owned Subsidiaries	84,914	-	-	-	-	-
Other changes	-	-	-	-	-	78
Increase in unrestricted net assets	$ 74,984	$ 54,361	$ 254	$ 4,310	$ 1,924	$ 5,918

East Mountain Health Advantage and Subsidiaries	War Memorial Hospital (9 months)	Page Memorial Hospital and Subsidiary	Valley Physician Enterprise	Subtotal	Eliminations	Consolidated
$ 22,485	$ 19,150	$ 47,434	$ 37,140	$ 1,171,314	$ -	$ 1,171,314
(1,196)	(610)	(1,908)	(1,672)	(62,897)	-	(62,897)
(7,063)	(4,246)	(22,376)	(16,440)	(431,665)	-	(431,665)
(1,229)	(1,295)	(3,696)	(1,388)	(45,648)	-	(45,648)
12,997	12,999	19,454	17,640	631,104	-	631,104
648	242	526	11,422	107,250	(75,962)	31,288
(2)	11	17	-	9,573	(212)	9,361
-	-	20	-	197	-	197
-	-	-	-	915	-	915
13,643	13,252	20,017	29,062	749,039	(76,174)	672,865
5,147	5,814	9,666	21,030	266,488	-	266,488
1,314	1,882	1,653	2,767	62,376	-	62,376
5,180	5,168	5,292	6,623	251,672	(2,046)	249,626
1,296	-	2,073	2,605	63,911	(63,911)	-
-	-	244	-	10,005	(10,005)	-
873	191	1,023	217	39,960	-	39,960
109	-	60	-	10,527	(212)	10,315
13,919	13,055	20,011	33,242	704,939	(76,174)	628,765
(276)	197	6	(4,180)	44,100	-	44,100
972	-	1,798	13,340	-	-	-
-	-	-	-	17,164	-	17,164
-	-	-	-	(7,591)	-	(7,591)
-	-	-	-	14,943	-	14,943
-	6,422	-	-	6,422	-	6,422
-	-	-	-	84,914	(84,914)	-
(132)	-	-	-	(54)	-	(54)
$ 564	$ 6,619	$ 1,804	$ 9,160	$ 159,898	$ (84,914)	$ 74,984

Part IV **Additional Information Regarding Transfer of Property** (see instructions)

9 Enter the transferor's interest in the foreign transferee corporation before and after the transfer:

(a) Before 43.750% (b) After 41.570%

10 Type of nonrecognition transaction (see instructions) ▶ IRC SEC 351

11	Indicate whether any transfer reported in Part III is subject to any of the following:		
a	Gain recognition under section 904(f)(3)	☐ Yes	☒ No
b	Gain recognition under section 904(f)(5)(F)	☐ Yes	☒ No
c	Recapture under section 1503(d)	☐ Yes	☒ No
d	Exchange gain under section 987	☐ Yes	☒ No
12	Did this transfer result from a change in the classification of the transferee to that of a foreign corporation?	☐ Yes	☒ No
13	Indicate whether the transferor was required to recognize income under final and temporary Regulations sections 1.367(a)-4 through 1.367(a)-6 for any of the following:		
a	Tainted property	☐ Yes	☒ No
b	Depreciation recapture	☐ Yes	☒ No
c	Branch loss recapture	☐ Yes	☒ No
d	Any other income recognition provision contained in the above-referenced regulations	☐ Yes	☒ No
14	Did the transferor transfer assets which qualify for the trade or business exception under section 367(a)(3)?	☐ Yes	☒ No
15a	Did the transferor transfer foreign goodwill or going concern value as defined in Temporary Regulations section 1.367(a)-1T(d)(5)(iii)?	☐ Yes	☒ No
b	If the answer to line 15a is "Yes," enter the amount of foreign goodwill or going concern value transferred ▶ $		
16	Was cash the only property transferred?	☒ Yes	☐ No
17a	Was intangible property (within the meaning of section 936(h)(3)(B)) transferred as a result of the transaction?	☐ Yes	☒ No

b If "Yes," describe the nature of the rights to the intangible property that was transferred as a result of the transaction:

REPRESENTATION UNDER TREAS. REG. § 1.7872-15(e)(2)
REGARDING NONRECOURSE SPLIT-DOLLAR LOAN

Employee	Employer
Menno Frank Heisey Name	Valley Health Name
[redacted]	220 Campus Blvd
	Suite 420
[redacted]	Winchester, VA 22601
[redacted] Social Security Number	52-1357729 Employer Identification Number

The Employer has paid one or more premiums into a life insurance policy owned by the Employee. The premiums are split dollar loans under Treas. Reg. § 1.7872-15. The loans are nonrecourse.

The Employer and Employee represent that a reasonable person would expect that all payments under the loan(s) will be made.

Employee Signature:

Date: 1/4/2012

Employer Signature:

By Elizabeth George-Tracy

Its VP HR

Date: 12-19-11

SIGN TWO COPIES OF THIS FORM – SEE BELOW

Note: Current IRS regulations require the following:

1. The employer and the employee must each sign this representation not later than the last day (including extensions) for filing the Federal income tax return of the employer or the employee (whichever is earlier) for the taxable year in which the employer pays the first premium under the arrangement.
2. The employer and the employee must each keep an original signed copy of this representation as part of their books and records.
3. The employer and the employee must each attach a copy of this representation to their Federal income tax returns for any taxable year in which the employer pays a premium under the arrangement.

REPRESENTATION UNDER TREAS. REG. § 1.7872-15(e)(2)
REGARDING NONRECOURSE SPLIT-DOLLAR LOAN

Employee	Employer
Neil R. McLaughlin Name	Valley Health Name
[redacted]	220 Campus Blvd
	Suite 420
[redacted]	Winchester, VA 22601
[redacted] Social Security Number	52-1357729 Employer Identification Number

The Employer has paid one or more premiums into a life insurance policy owned by the Employee. The premiums are split dollar loans under Treas. Reg. § 1.7872-15. The loans are nonrecourse.

The Employer and Employee represent that a reasonable person would expect that all payments under the loan(s) will be made.

Employee Signature: Neil R. McLaughlin

Date: 12-20-11

Employer Signature: By Elizabeth Farge-Travis

Its VP HR

Date: 12-19-11

SIGN TWO COPIES OF THIS FORM – SEE BELOW

Note: Current IRS regulations require the following:

1. The employer and the employee must each sign this representation not later than the last day (including extensions) for filing the Federal income tax return of the employer or the employee (whichever is earlier) for the taxable year in which the employer pays the first premium under the arrangement.
2. The employer and the employee must each keep an original signed copy of this representation as part of their books and records.
3. The employer and the employee must each attach a copy of this representation to their Federal income tax returns for any taxable year in which the employer pays a premium under the arrangement.

REPRESENTATION UNDER TREAS. REG. § 1.7872-15(d)(3)
REGARDING NONRECOURSE SPLIT DOLLAR LOAN

Employee	Employer
Patrick B. Nolan Name	Valley Health Name
[redacted]	220 Campus Blvd
	Suite 420
[redacted]	Winchester, VA 22601
[redacted] Social Security Number	52-1357729 Employer Identification Number

The Employer has paid one or more premiums into a life insurance policy owned by the Employee. The premiums are split dollar loans under Treas. Reg. § 1.7872-15. The loans are nonrecourse.

The Employer and Employee represent that a reasonable person would expect that all payments under the loan(s) will be made.

Employee Signature: [signature]

Date: 1/5/12

Employer Signature:

By Elizabeth Savage-Tracy

Its VP HR

Date: 12-19-11

SIGN TWO COPIES OF THIS FORM – SEE BELOW

Note: Current IRS regulations require the following:

1. The employer and the employee must each sign this representation not later than the last day (including extensions) for filing the Federal income tax return of the employer or the employee (whichever is earlier) for the taxable year in which the employer pays the first premium under the arrangement.
2. The employer and the employee must each keep an original signed copy of this representation as part of their books and records.
3. The employer and the employee must each attach a copy of this representation to their Federal income tax returns for any taxable year in which the employer pays a premium under the arrangement.

REPRESENTATION UNDER TREAS. REG. § 1.7872-15(d)(4)
REGARDING NONRECOURSE SPLIT-DOLLAR LOAN

Employee	Employer
Nicolas C. Restrepo Name	Valley Health Name
[redacted]	220 Campus Blvd
	Suite 420
[redacted]	Winchester, VA 22601
[redacted] Social Security Number	52-1357729 Employer Identification Number

The Employer has paid one or more premiums into a life insurance policy owned by the Employee. The premiums are split dollar loans under Treas. Reg. § 1.7872-15. The loans are nonrecourse.

The Employer and Employee represent that a reasonable person would expect that all payments under the loan(s) will be made.

Employee Signature:

[signature]

Date: 12/15/11

Employer Signature:

By [signature] Elizabeth George-Tracy

Its VP HR

Date: 12-19-11

SIGN TWO COPIES OF THIS FORM – SEE BELOW

Note: Current IRS regulations require the following:

1. The employer and the employee must each sign this representation not later than the last day (including extensions) for filing the Federal income tax return of the employer or the employee (whichever is earlier) for the taxable year in which the employer pays the first premium under the arrangement.
2. The employer and the employee must each keep an original signed copy of this representation as part of their books and records.
3. The employer and the employee must each attach a copy of this representation to their Federal income tax returns for any taxable year in which the employer pays a premium under the arrangement.

REPRESENTATION UNDER TREAS. REG. § 1.7872-15(e)(5)
REGARDING NONRECOURSE SPLIT-DOLLAR LOAN

Employee	Employer
Andrew G. Cohen Name	Valley Health Name
[redacted]	220 Campus Blvd
	Suite 420
[redacted]	Winchester, VA 22601
[redacted] Social Security Number	52-1357729 Employer Identification Number

The Employer has paid one or more premiums into a life insurance policy owned by the Employee. The premiums are split dollar loans under Treas. Reg. § 1.7872-15. The loans are nonrecourse.

The Employer and Employee represent that a reasonable person would expect that all payments under the loan(s) will be made.

Employee Signature: [signature]

Date: 12/26/11

Employer Signature:

By [signature]

Its VP HR

Date: 12-19-11

SIGN TWO COPIES OF THIS FORM – SEE BELOW

Note: Current IRS regulations require the following:

1. The employer and the employee must each sign this representation not later than the last day (including extensions) for filing the Federal income tax return of the employer or the employee (whichever is earlier) for the taxable year in which the employer pays the first premium under the arrangement.
2. The employer and the employee must each keep an original signed copy of this representation as part of their books and records.
3. The employer and the employee must each attach a copy of this representation to their Federal income tax returns for any taxable year in which the employer pays a premium under the arrangement.

REPRESENTATION UNDER TREAS. REG. § 1.7872-15(e)(4)
REGARDING NONRECOURSE SPLIT-DOLLAR LOAN

Employee	Employer
Tonya M. Smith Name	Valley Health Name
[redacted]	220 Campus Blvd
	Suite 420
[redacted]	Winchester, VA 22601
[redacted] Social Security Number	52-1357729 Employer Identification Number

The Employer has paid one or more premiums into a life insurance policy owned by the Employee. The premiums are split dollar loans under Treas. Reg. § 1.7872-15. The loans are nonrecourse.

The Employer and Employee represent that a reasonable person would expect that all payments under the loan(s) will be made.

Employee Signature:

Date: 12/22/11

Employer Signature:

By Elizabeth George-Ivey

Its VP HR

Date: 12-19-11

SIGN TWO COPIES OF THIS FORM – SEE BELOW

Note: Current IRS regulations require the following:

1. The employer and the employee must each sign this representation not later than the last day (including extensions) for filing the Federal income tax return of the employer or the employee (whichever is earlier) for the taxable year in which the employer pays the first premium under the arrangement.
2. The employer and the employee must each keep an original signed copy of this representation as part of their books and records.
3. The employer and the employee must each attach a copy of this representation to their Federal income tax returns for any taxable year in which the employer pays a premium under the arrangement.

REPRESENTATION UNDER TREAS. REG. § 1.7872-15(D)(4)
REGARDING NONRECOURSE SPLIT-DOLLAR LOAN

Employee	Employer
Alfred E. Pilong	Valley Health
Name	Name
[redacted]	220 Campus Blvd
	Suite 420
[redacted]	Winchester, VA 22601
[redacted]	52-1357729
Social Security Number	Employer Identification Number

The Employer has paid one or more premiums into a life insurance policy owned by the Employee. The premiums are split dollar loans under Treas. Reg. § 1.7872-15 The loans are nonrecourse.

The Employer and Employee represent that a reasonable person would expect that all payments under the loan(s) will be made.

Employee Signature:

Date: 12/21/11

Employer Signature:

By Elizabeth Savage-Tracy

Its VP HR

Date: 12-19-11

SIGN TWO COPIES OF THIS FORM – SEE BELOW

Note: Current IRS regulations require the following:

1. The employer and the employee must each sign this representation not later than the last day (including extensions) for filing the Federal income tax return of the employer or the employee (whichever is earlier) for the taxable year in which the employer pays the first premium under the arrangement.
2. The employer and the employee must each keep an original signed copy of this representation as part of their books and records.
3. The employer and the employee must each attach a copy of this representation to their Federal income tax returns for any taxable year in which the employer pays a premium under the arrangement.

REPRESENTATION UNDER TREAS. REG. § 1.7872-15(e)(2)
REGARDING NONRECOURSE SPLIT-DOLLAR LOAN

Employee	Employer
Joan M. Roscoe Name	Valley Health Name
[redacted]	220 Campus Blvd
	Suite 420
[redacted]	Winchester, VA 22601
[redacted] Social Security Number	52-1357729 Employer Identification Number

The Employer has paid one or more premiums into a life insurance policy owned by the Employee. The premiums are split dollar loans under Treas. Reg. § 1.7872-15. The loans are nonrecourse.

The Employer and Employee represent that a reasonable person would expect that all payments under the loan(s) will be made.

Employee Signature:

[signature]

Date: 12.20.11

Employer Signature:

By [signature]

Its VP HR

Date: 12-19-11

SIGN TWO COPIES OF THIS FORM – SEE BELOW

Note: Current IRS regulations require the following:

1. The employer and the employee must each sign this representation not later than the last day (including extensions) for filing the Federal income tax return of the employer or the employee (whichever is earlier) for the taxable year in which the employer pays the first premium under the arrangement.
2. The employer and the employee must each keep an original signed copy of this representation as part of their books and records.
3. The employer and the employee must each attach a copy of this representation to their Federal income tax returns for any taxable year in which the employer pays a premium under the arrangement.

REPRESENTATION UNDER TREAS. REG. § 1.7872-15(e)(2)
REGARDING NONRECOURSE SPLIT-DOLLAR LOAN

Employee	Employer
Mark H. Merrill	Valley Health
Name	Name
[redacted]	220 Campus Blvd
	Suite 420
[redacted]	Winchester, VA 22601
[redacted]	52-1357729
Social Security Number	Employer Identification Number

The Employer has paid one or more premiums into a life insurance policy owned by the Employee. The premiums are split dollar loans under Treas. Reg. § 1.7872-15. The loans are nonrecourse.

The Employer and Employee represent that a reasonable person would expect that all payments under the loan(s) will be made.

Employee Signature:

Mark H. Merrill

Date: 12/20/11

Employer Signature:

By Elizabeth Savage-Tracy

Its VP HR

Date: 12-19-11

SIGN TWO COPIES OF THIS FORM – SEE BELOW

Note: Current IRS regulations require the following:

1. The employer and the employee must each sign this representation not later than the last day (including extensions) for filing the Federal income tax return of the employer or the employee (whichever is earlier) for the taxable year in which the employer pays the first premium under the arrangement.
2. The employer and the employee must each keep an original signed copy of this representation as part of their books and records.
3. The employer and the employee must each attach a copy of this representation to their Federal income tax returns for any taxable year in which the employer pays a premium under the arrangement.

REPRESENTATION UNDER TREAS. REG. § 1.7872-15(d)(4)
REGARDING NONRECOURSE SPLIT-DOLLAR LOAN

Employee	Employer
M. Todd Way	Valley Health
Name	Name
[redacted]	220 Campus Blvd
	Suite 420
[redacted]	Winchester, VA 22601
[redacted]	52-1357729
Social Security Number	Employer Identification Number

The Employer has paid one or more premiums into a life insurance policy owned by the Employee. The premiums are split dollar loans under Treas. Reg. § 1.7872-15. The loans are nonrecourse.

The Employer and Employee represent that a reasonable person would expect that all payments under the loan(s) will be made.

Employee Signature:

M. Todd Way

Date: 12-20-2011

Employer Signature:

By Elizabeth Ann George Tracy

Its VP HR

Date: 12-19-11

SIGN TWO COPIES OF THIS FORM – SEE BELOW

Note: Current IRS regulations require the following:

1. The employer and the employee must each sign this representation not later than the last day (including extensions) for filing the Federal income tax return of the employer or the employee (whichever is earlier) for the taxable year in which the employer pays the first premium under the arrangement.
2. The employer and the employee must each keep an original signed copy of this representation as part of their books and records.
3. The employer and the employee must each attach a copy of this representation to their Federal income tax returns for any taxable year in which the employer pays a premium under the arrangement.

REPRESENTATION UNDER TREAS. REG. § 1.7872-15(e)(4)
REGARDING NONRECOURSE SPLIT-DOLLAR LOAN

Employee	Employer
Elizabeth A. Savage-Tracy	Valley Health
Name	Name
[redacted]	220 Campus Blvd
	Suite 420
[redacted]	Winchester, VA 22601
[redacted]	52-1357729
Social Security Number	Employer Identification Number

The Employer has paid one or more premiums into a life insurance policy owned by the Employee. The premiums are split dollar loans under Treas. Reg. § 1.7872-15. The loans are nonrecourse.

The Employer and Employee represent that a reasonable person would expect that all payments under the loan(s) will be made.

Employee Signature: Elizabeth Savage-Tracy

Date: 12-19-11

Employer Signature:

By [signature]

Its CFO

Date: 12-19-11

SIGN TWO COPIES OF THIS FORM – SEE BELOW

Note: Current IRS regulations require the following:

1. The employer and the employee must each sign this representation not later than the last day (including extensions) for filing the Federal income tax return of the employer or the employee (whichever is earlier) for the taxable year in which the employer pays the first premium under the arrangement.
2. The employer and the employee must each keep an original signed copy of this representation as part of their books and records.
3. The employer and the employee must each attach a copy of this representation to their Federal income tax returns for any taxable year in which the employer pays a premium under the arrangement.

REPRESENTATION UNDER TREAS. REG. § 1.7872-15(D)(2)
REGARDING NONRECOURSE SPLIT-DOLLAR LOAN

Employee	Employer
J. Craig Lewis Name	Valley Health Name
[redacted]	220 Campus Blvd
	Suite 420
[redacted]	Winchester, VA 22601
[redacted] Social Security Number	52-1357729 Employer Identification Number

The Employer has paid one or more premiums into a life insurance policy owned by the Employee. The premiums are split dollar loans under Treas Reg. § 1.7872-15. The loans are nonrecourse.

The Employer and Employee represent that a reasonable person would expect that all payments under the loan(s) will be made.

Employee Signature:

Date: 12-19-11

Employer Signature:

By Elizabeth George-Tracy

Its VP HR

Date: 12-19-11

SIGN TWO COPIES OF THIS FORM – SEE BELOW

Note: Current IRS regulations require the following:

1. The employer and the employee must each sign this representation not later than the last day (including extensions) for filing the Federal income tax return of the employer or the employee (whichever is earlier) for the taxable year in which the employer pays the first premium under the arrangement.
2. The employer and the employee must each keep an original signed copy of this representation as part of their books and records.
3. The employer and the employee must each attach a copy of this representation to their Federal income tax returns for any taxable year in which the employer pays a premium under the arrangement.